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Imperialism, Nationalism and the Making of the Indian Capitalist Class

1920–1947

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ADITYA MUKHERJEE

SAGE SERIES IN MODERN INDIAN HISTORY

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Imperialism, Nationalism and the Making of the Indian Capitalist Class, 1920–1947

Imperialism, Nationalism and the Making of the Indian Capitalist Class, 1920–1947

ADITYA MUKHERJEE

Sage Series in Modern Indian History-III

SERIES EDITORS

Bipan Chandra
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Ma, Babuji and Mridula

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Series Editors' Preface

The Sage Series in Modern Indian History is intended to bring together the growing volume of historical studies that share a very broad common historiographic focus.

In the 50 years since independence from colonial rule, research and writing on modern Indian history has given rise to intense debates resulting in the emergence of different schools of thought. Prominent among them are the Cambridge School and the Subaltern School. Some of us at the Jawaharlal Nehru University, along with many colleagues in other parts of the country, have tried to promote teaching and research along somewhat different lines. We have endeavoured to steer clear of colonial stereotypes, nationalist romanticization, sectarian radicalism and a rigid and dogmatic approach. We have also discouraged the "flavour of the month" approach which tries to ape whatever is currently fashionable.

Of course, a good historian is fully aware of contemporary trends in historical writing and of historical work being done elsewhere, and draws heavily on the comparative approach, i.e., the historical study of other societies, states and nations, and on other disciplines, especially economics, political science, sociology and social anthropology. A historian tries to understand the past and make it relevant to the present and the future. History thus also caters to the changing needs of society and social development. A historian is a creature of his or her times, yet a good historian tries to use every tool available to the historian's craft to avoid a conscious bias to get as near the truth as possible.

The approach we have tried to evolve looks sympathetically, though critically, at the Indian national liberation struggle and other popular movements such as those of labour, peasants, lower castes, tribal peoples and women. It also looks at colonialism as a structure and a system, and analyzes changes in economy, society and culture in the colonial context as also in the context of independent India. It focuses on communalism and casteism as major features of modern Indian development. The volumes in the series will tend to reflect this approach as also its changing and developing features. At the broadest plane our approach is committed

to the Enlightenment values of rationalism, humanism, democracy and secularism.

The series will consist of well-researched volumes with a wider scope which deal with a significant historiographical aspect even while devoting meticulous attention to detail. They will have a firm empirical grounding based on an exhaustive and rigorous examination of primary sources (including those available in archives in different parts of India and often abroad); collections of private and institutional papers; newspapers and journals (including those in Indian languages); oral testimony; pamphlet literature; and contemporary literary works. The books in this series, while sharing a broad historiographic approach, will invariably have considerable differences in analytical frameworks.

The many problems that hinder academic pursuit in developing societies—e.g., relatively poor library facilities, forcing scholars to run from library to library and city to city and yet not being able to find many of the necessary books; inadequate institutional support within universities; a paucity of research-funding organizations; a relatively underdeveloped publishing industry, and so on—have plagued historical research and writing as well. All this has made it difficult to initiate and sustain efforts at publishing a series along the lines of the Cambridge History series or the history series of some of the best US and European universities.

But the need is there because, in the absence of such an effort, a vast amount of work on Indian history being done in Delhi and other university centres in India as also in British, US, Russian, Japanese, Australian and European universities which shares a common historiographic approach remains scattered and has no "voice". Also, many fine works published by small Indian publishers never reach the libraries and bookshops in India or abroad.

We are acutely aware that one swallow does not make a summer. This series will only mark the beginning of a new attempt at presenting the efforts of scholars to evolve autonomous (but not indigenist) intellectual approaches in modern Indian history.

Bipan Chandra
Mridula Mukherjee
Aditya Mukherjee

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List of Abbreviations

AICC	All India Congress Committee
AR	Annual Report
BECR	Banking Enquiry Committee Report (Central)
BMOA	Bombay Millowners' Association
BNCC	Bengal National Chamber of Commerce
Corresp.	Correspondence
E and O Dept.	Economic and Overseas Department
EE	Eastern Economist
EPT	Excess Profit Tax
EPW	Economic and Political Weekly
FICCI	Federation of Indian Chambers of Commerce and Industry
Fisc. Com. Rep.	Fiscal Commission Report
GOI	Government of India
HMG	His Majesty's Government
IBRD	International Bank for Reconstruction and Development
IBTN	Indo-British Trade Negotiations
ICC (Cal.)	Indian Chamber of Commerce (Calcutta)
IESHR	Indian Economic and Social History Review
IICC	Indian Industrial and Commercial Congress
IICR	Indian Industrial Commission Report
IMC	Indian Merchants' Chamber
IMF	International Monetary Fund
IOR	India Office Records
LAD	Legislative Assembly Debates
L/E	Economic and Overseas Department Collection
L/F	Financial Collection
L/P and J	Public and Judicial Department Records
L/PO	Secretary of State's Private Office Papers
L/WS	War Staff Papers
NMML	Nehru Memorial Museum and Library
NPC	National Planning Committee
NPCR	National Planning Committee Report
NPPA	National Planning Principles and Administration
Proc. of EC	Proceedings of Executive Committee
PT	Purshotamdas Thakurdas
RBI	Reserve Bank of India
RTC	Round Table Conference
WH	Walchand Hirachand

Preface

This work describes and analyzes the process of the emergence and evolution of the Indian capitalist class and its relationship with imperialism and nationalism, providing simultaneously a comprehensive economic history of colonial India in the first half of the twentieth century. It details the emergence and development of the Indian capitalists as a mature, politically conscious, all-India class—"a class for itself". While tracing the politico-ideological evolution of the class, it examines at considerable length the critique of British colonialism in India that was evolved by the Indian capitalists. It demonstrates that in the twentieth century it was the Indian capitalists who continued the task performed in the nineteenth century by the early nationalists such as Dadabhai Naoroji and Ranade, of being the national watchdogs on the economic front, and of providing an immediate and sharp critique of British economic policy. The range of economic issues covered by them included British industrial, fiscal and monetary policies. The level of sophistication of their analysis is testified to by the manner in which they unraveled and delineated the very complex phenomenon of "unequal exchange" occurring in trade between countries with different levels of productivity—a phenomenon that has exercised the minds of some of the leading economic thinkers of the world.

The book also discusses the remarkable maturity with which the Indian capitalists fashioned their political stance vis-à-vis imperialism and the Indian national movement. Their support to the national movement was based on the clear understanding that national independence was a necessary condition for Indian economic development. This support was, however, given in such a way that, while helping the movement overthrow imperialism, it would keep the Left wing within the movement contained. The book also draws out the crucial linkages between the economic, political and ideological evolution of the Indian capitalist class under colonialism and the nature of the post-colonial state, society and economy.

The view that the Indian capitalist class was "comprador" or loyalist, or that it "vacillated" between surrender and a weak opposition to imperialism, or that its allegedly compromised position vis-à-vis foreign capital

and feudal interests as well as its fear of the Left made it incapable of being consistently anti-imperialist has been systematically challenged in this work. Since a view that was popular for more than half-a-century has been questioned, I have given extensive authentication from diverse sources consulted in India and Britain. These include government archives; business chambers' papers; institutional papers; private papers and correspondence of Viceroys and officials as well as important business leaders such as Purshotamdas Thakurdas, G.D. Birla and Walchand Hirachand; newspapers; interviews and so on.

I have in this work basically tried to study the Indian capitalist class as a whole and not so much its various parts or sections. I have highlighted what emerged as the dominant view within the class (despite the persistence of many local differences) as reflected in the positions taken in the common platforms of the class or as expressed by its accepted leadership.

The original impetus for choosing this theme for research was provided by the experience of the ultra-Left "revolutionary" upsurge in the later 1960s and early 1970s. Many of my generation who were undergraduate students at that time felt a vague discomfort with this strand of politics. While a commitment to a social vision and ideal appealed, the characterization of Indian society and politics made by this strand and their political strategy based on it did not seem to quite match with even our common sense perception of Indian reality. Critical to the formulation of the strategy argued by the Communist Left in general, including the ultra-Left, was their understanding of the Indian capitalist class, its economic, political and ideological basis and its relationship with imperialism and nationalism. Characteristically, almost the entire characterization of this class was made "a priori" without virtually any serious empirical study of it. The writings of Bipan Chandra, which were among the first to question, on the basis of empirical research, the traditional Left paradigm, including its characterization of the capitalist class, excited my imagination and encouraged me to work on this theme.

In Chapter 1, I discuss the major changes in the economic position of the Indian capitalist class and in the Indian economy in general, particularly after the First World War. In Chapter 2, I trace the emergence of the Indian capitalist class as a "class for itself", its political and ideological position vis-à-vis other classes, imperialism and the Indian national movement. In Chapters 3 to 10, I discuss in considerable detail the positions evolved by the capitalist class vis-à-vis imperialism in relation to the critical economic issues of the time such as finance, monetary policy, tariffs, trade, industry and foreign capital. In Chapter 11, I discuss the capitalist class strategy for future (post-independence) planned development and how it reacted to issues like the relationship between the private and the public sector. In Chapter 12, I make some concluding remarks drawing out and highlighting some aspects of the positions adopted by the capitalist class which go

towards explaining why their class perspective acquired and maintained a hegemonic influence on the rest of society both before and after independence.

Among all those who have, over the years, helped sustain this work, my deepest debt is due to Bipan Chandra, who has been to me much more than just my teacher, supervisor and colleague, and to Mridula, my friend, critic, colleague and wife.

Professor Bipan Chandra, mainly through his personal example, tried relentlessly to impart to his students many basic values such as a deep intellectual curiosity and honesty, an ability to take positions fearlessly and firmly, however much against the current mainstream and unpleasant to one's own peer group they may be, and a desire to seek the reward for intellectual and academic effort not in "professional" success in a narrow careerist sense but in the context of wider social relevance and commitment. I am fortunate to have been one of his students. He took great personal interest in this work, spending hours at a time in discussion.

Mridula rescued me from the world of hard-sell private enterprise. She introduced me to the world of history and provided material, moral and intellectual support at a critical time, which enabled me to explore, choose and pursue the vocation of my choice. My endless interaction with her has so shaped this entire study that it is impossible to give any specific acknowledgement.

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John Cell and Charles Bergquist, my colleagues at Duke University, USA, where I was visiting professor in 1986, gave generously of their time and made incisive comments on many parts of this work. They also provided me an opportunity to acquire greater exposure to the histories of other colonial and post-colonial countries, especially those of Africa and Latin America.

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My parents, Shri Shashanka Shekhar Mukherjee and Smt. Durga Mukherjee, over the years gave of themselves so generously and selflessly that I find it impossible to find words of gratitude. It will remain a matter of deep regret that my mother could not see the book in print.

I must in the end thank the staff of the Nehru Memorial Museum and Library, New Delhi; Federation of Indian Chambers of Commerce and Industry Library, New Delhi; India Office Library and Records, London; Centre for South Asian Studies, Cambridge; National Archives of India, New Delhi; British Museum Library, London; the Public Records Office, London; and the Jawaharlal Nehru University Library, New Delhi for all the help they gave me. Om Prakash did the typing under constant pressure uncomplainingly. I owe thanks to all the staff of the Academic Staff College of Jawaharlal Nehru University, particularly Savitri Bisht, S.C. Sharma, Ajay Sharma, Rakesh Dedha and Ram Prasad, for providing support in the completion of this work during my tenure as Director of the College.

Aditya Mukherjee

ONE

Introduction

One of the most striking features of post-First World War colonial India was the extent to which the Indian capitalist class constituted itself as a class. It emerged not only as an economic category with a growing independent base for capital accumulation but was also able to organize itself on an all-India basis as a self-conscious "class for itself".

The process of the capitalists getting constituted as a class involved a complex set of developments. First, the class emerged in the process of struggle[1] against other classes, and (in the context of colonial domination being the central contradiction in Indian society) particularly against the metropolitan bourgeoisie and the colonial state. In fact, the process of disparate groups of capitalists from different parts of the country emerging as an all-India class was inextricably linked with the growth of the Indian national movement and the Indian "nation in the making". After all the notion of an *Indian* capitalist class could not emerge so long as the notion of India or the Indian "people" did not begin to take root and the capitalist class did not begin to identify with it.

Second, a critical feature of the emergence of the capitalist class as a mature self-conscious class was its ability to subordinate various intra-class conflicts in order to arrive at a common class position. Equally important was its ability to sacrifice some of its short-term interests (often making concessions to other classes) for the sake of maintaining the long-term interests of the class. It was the adoption of such a perspective which contributed towards the capitalist class being able to develop a hegemonic ideology vis-à-vis other classes and the nation. Simultaneously, the ability

[1] For a discussion on how a class gets constituted through a process of struggle and the development of class consciousness, how it "defines itself as... it eventuates", see E.P. Thompson, "Eighteenth Century English Society", *Social History*, Vol. 3.2, 1978; and Harvey J. Kaye, *The British Marxist Historians*, Cambridge, 1986, pp. 200–203.

of the various constituents of the capitalist class to adopt this perspective was itself a product of such a hegemonic ideology permeating the class.[2]

The fact that the Indian capitalist class was able to adopt such a mature and complex position vis-à-vis various constituents of the capitalist class, other classes and the nation as a whole, and the fact that it was ahead of any other class in India in doing so, had important implications for the nature and course of the anti-imperialist movement in India. It goes some way in explaining why despite the existence of powerful contending trends in the movement, the struggle eventually did not end with the establishment of a socialist order.

An error in assessing the economic, political and ideological position and role of the Indian capitalist class has led to an erroneous characterization not only of the capitalist class and its relationship with imperialism and nationalism, but also, to some extent, of the nature of imperialism and nationalism in India. This error, especially when made by ideologues and leaders of political trends opposed to the capitalists, was to cost the forces contending with capitalism quite heavily.[3]

It may be noted at the outset that a colonial capitalist class cannot be characterized or its position derived as being either national or comprador, anti-imperialist or collaborationist, *simply* on the basis of its objective economic position vis-à-vis the metropolitan bourgeoisie and the world capitalist system or on the basis of its size (big capitalists, small capitalists, etc.) and area of activity (for example, trade or industry).[4] Nor can the capitalist class be characterized by looking only at the position of the colonial economy vis-à-vis the world capitalist system. The position of the class is equally importantly determined on the basis of its specific historical evolution at the levels of its political and ideological consciousness and practice.[5]

There is in fact the possibility, as appears to be the case for the Indian capitalist class as well as, perhaps, the Indian national movement, of the class and the movement being politically and ideologically very advanced, in a sense "over-developed" or "over-determined", as compared to the "objective" economic basis. In other words, the process of the formation of

[2] This aspect of the Indian capitalist class evolving a hegemonic ideology and directing its own practice on that basis can be seen throughout this volume. See particularly, Chapters 2, 11 and 12.

[3] Some of these errors have been discussed in this chapter and in Chapters 2, 10, 11 and 12.

[4] In Chapter 2, I have discussed how, for example, big capitalists and traders are not necessarily pro-imperialist as it has been traditionally argued.

[5] Nicos Poulantzas, *Classes in Contemporary Capitalism*, London, 1975, p. 70, makes a similar argument: "In general, the national bourgeoisie is distinguished from the comprador bourgeoisie... on other levels besides the economic; the national bourgeoisie can only be defined if the political and ideological criteria of its class determination are also taken into account." See Chapter 2 in this volume for a discussion of the political and ideological development of the Indian capitalist class.

the "class for itself" could push far ahead of the process of the emergence of "the class in itself"—though the former was inextricably linked with and dialectically determined by the latter.

Also, an objective situation of weakness may not necessarily produce a capitalist class which accepts a dependent status but, on the contrary, may produce a class which makes spirited attempts politically and otherwise to break out of its dependent status and to develop independently. The reverse may also be true where a relatively economically strong class may remain backward ideologically and politically and therefore accept a relatively greater dependent status than would a politically advanced but economically weak class. Further, if only a one-to-one relationship is seen, where the economic base reflects only its own image at the political–ideological level, then there would be little possibility of socio-economic change on the basis of political and ideological intervention. This would be crude economic determinism.

An example of how a simple linkage cannot be made between a weak economic position and surrender to imperialism is seen in the case of the Indian capitalist class which in the 1920s and 1930s, when its position was relatively weak, remained totally opposed to any foreign capital, but in the 1940s, having somewhat consolidated its economic strength and being certain of being able to use the weight of the imminent independent national state against foreign domination, became willing to make concessions to and enter into agreements with foreign capital.[6]

All this is not to deny the crucial importance of the economic position of the class vis-à-vis foreign capital and the metropolitan economy, but merely to put it in a broader perspective.

Writings of radical Left scholars like Samir Amin, A.K. Bagchi, A. Gunder Frank, Hamza Alavi and Ernest Mandel, implicitly assumed that colonial economies, or even post-colonial peripheral economies after achieving political independence, necessarily developed in a fashion that led to the further structuring in a dependent fashion of these economies *and their bourgeoisies*, making it impossible for them to break out of this dependent status without opting out of the world capitalist system altogether.[7] This task naturally could not be performed by the colonial bourgeoisie.[8]

[6] See Chapter 10 in this volume.

[7] See Samir Ameen, *Accumulation on a World Scale*, New York, 1974, pp. 33ff.; Hamza Alavi, "The Structure of Colonial Social Formations", July 1979, Mimeograph; and Hamza Alavi, "India and the Colonial Mode of Production", *Economic and Political Weekly* (henceforth *EPW*), Vols. 10.33–10.35, 1975; Ernest Mandel, *Marxist Economic Theory*, London, 1962, p. 480; A.K. Bagchi, *Private Investment in India, 1900–1939*, Cambridge, 1972, Chapter 14; and A.K. Bagchi, "Foreign Capital and Economic Development in India: A Schematic View", in K. Gough and H.P. Sharma (eds), *Imperialism and Revolution in South Asia*, New York, 1973.

[8] Samir Amin would see the emerging class struggle to be between the peripheral proletariat and the metropolitan bourgeoisie. The conflict of the colonial bourgeoisie with the

Such formulations are generally made on the basis of the experience of certain colonies and neo-colonies of Latin America, Africa and Asia, with specific growth patterns, and then they are sought to be generalized for all colonies. The study of the actual historical evolution of the colonial economy and colonial bourgeoisie (in the case of the latter *particularly its political and ideological evolution*) of a country such as India, which demonstrates a different tendency, is not even attempted. Indian Communist thinking since as early as the 1920s also more or less fell into the same pattern and made similar assumptions. They too saw the colonial bourgeoisie as incapable of being anti-imperialist and therefore diagnosed the inevitability of the bourgeoisie's "sell out" to imperialism. Having made such an assumption they were forced to argue in a determinist fashion that the struggle for national liberation could *only* be led by the working class.[9]

However, when we actually examine the developments in colonial India, especially since the First World War, we find that there were significant changes occurring in the Indian economy and a certain measure of economic development was taking place, albeit, in spite of and in opposition to colonialism, which enabled the Indian capitalist class to grow and establish a considerably large independent economic base for capital accumulation even within the colonial period, and on a qualitatively bigger scale since independence.[10] Therefore, the economic position, at least, did not appear to preclude the possibility of the emergence of a national bourgeoisie, and, in fact, on the contrary, pointed in the opposite direction.

In this chapter, I shall examine the economic position of the Indian capitalist class in the period following the First World War. This was the period when the capitalist class as also the working class began to organize themselves politically on an all-India basis. In the next chapter I shall look into the formation of an all-India organization by the capitalist class and its political and ideological development particularly in relation to imperialism, the national movement and other classes.

I. The Economic Background

A number of important developments occurred in the colonial economy in the twentieth century, particularly since the First World War. Most of these

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metropolitan bourgeoisie is thus ignored, the former being seen as an adjunct of the latter. Amin, *Accumulation on a World Scale*, pp. 5, 33ff.

[9] See Aditya Mukherjee, "The Workers' and Peasants' Parties, 1926–30: An Aspect of Communism in India", *Studies in History* (henceforth *SIH*), Vols. 3.1–3.2, 1981.

[10] For a discussion of the post-independence developments, see Aditya Mukherjee and Mridula Mukherjee, "Imperialism and the Growth of Indian Capitalism in the Twentieth Century", *EPW*, Vol. 23.1, 1988, pp. 531–33, reprinted in Ghanshyam Shah, ed., *Capitalist Development: Critical Essays*, Bombay, 1990, pp. 77–83.

developments have been individually noted in one economic history study or the other. However, the combined effect of these developments on the capitalist class has been missed despite its enormous significance. A very brief and schematic survey of some of these developments is made in the following paragraphs.

First, it is generally undisputed that a major development in the Indian colonial economy in the twentieth century was the initiation of a rapid phase of import substitution in most of the major consumer goods industries and certain intermediate and capital goods industries like textiles, sugar, matches, soap, cement, paper, glass, sulphuric acid and other basic chemicals, magnesium chloride, machine tools, tinplate and iron and steel (see Table 1.1).[11] This process, a reversal of the general nineteenth-century trend, began in the early twentieth century, picked up by the First World War and the 1920s, got a major push in the 1930s and during the Second World War, and took a quantum leap in the years following independence. In any case, by 1939, India was more or less self-sufficient in her major consumer goods requirements.[12] Most important, the bulk of this process was occurring under the aegis of independent indigenous capital.

Second, apart from import substitution, there was a growing tendency towards inward orientation, with indigenous producers, who were earlier producing for export, shifting towards the home market. Also, the link between agriculture and indigenous industry began to grow, reversing the earlier trend where the former was increasingly linked to metropolitan industry. A good example of this process was the cotton textile industry, the most important industry in India at that time. In the early decades of the twentieth century the cotton mill industry in Bombay was beginning to shift from export of yarn to the Far East (particularly China), to production of yarn and cloth for the domestic market. Also, other textile centres in the interior areas, such as Ahmedabad, Kanpur and Coimbatore, which grew faster than Bombay in this period, produced yarn and cloth mainly for the domestic market.[13] Further, as the textile industry in India grew due to rapid import substitution, it began to pick up an increasing proportion of the domestic raw cotton production (see Chapter 8). The growing inward orientation was also a result of the traditional export-oriented industries like jute stagnating in this period, while the domestic market-oriented industries like cotton textiles, sugar and iron and steel registered relatively quicker growth rates.[14]

[11] See Bagchi, *Private Investment*, Chapters 3, 7 and 9–14; Rajat Ray, *Industrialisation in India*, Delhi, 1979, pp. 145ff., 161ff. and 196ff.; B.R. Tomlinson, *The Political Economy of the Raj, 1914–47*, London, 1979, pp. 31–32; and S. Subramanian and P.W.R. Homfray, *Recent Social and Economic Trends in India*, New Delhi, 1946, pp. 6–8 and 48–49.

[12] Bagchi, *Private Investment*, pp. 440–41.

[13] Bagchi, *Private Investment*, Chapters 3 and 7.

[14] *Ibid.*, pp. 83ff. and 433ff.

Table 1.1

Sea-borne Imports into British India, 1900–45

	I *1900–1901*	*II* *1920–21*	*III* *1936–37*	*IV* *1944–45*
Cotton Piece-goods (million yards)	2003	1510	764	5
Sugar (thousand tonnes)	–	344	23 (net imports -17)*	nil
Soap (thousand cwt.)	–	313	48	3
Matches (thousand gross boxes)		12399	55 (By 1938–39, 95% of total consumption met indigenously)	During war imports rise due to shortages. No figures available for 1944–45
Cement (thousand tonnes)	165 (1914)	131	51	5 (1940–41) Insignificant in 1944–45, being 1/5 of 1940–41 in value terms at current prices
Paper & Pasteboard (Rs million)		73	39.4	26.1
Iron and Steel (thousand tonnes)	286	712	363	87

Source: Columns II, III and IV from S. Subramanian and P.W.R. Homfray, *Recent Social and Economic Trends in India*, New Delhi, 1946, pp. 6–8 and 48–49. Column I from A.K. Bagchi, *Private Investment in India, 1900–1939*, Cambridge, 1972, pp. 238, 295 and 354.
* See Rajat Ray, *Industrialisation in India*, Delhi, 1979, p. 138. By 1937 India had started *exporting* sugar.
Note: Up to 1936–37, figures included Burma.

Third, reflecting the changes discussed above, India's total volume of international trade, which had grown stupendously in the nineteenth century, when India became a typical outward-oriented colonial economy, began to decline after the First World War. Simultaneously, her internal trade began to grow, in some areas quite dramatically. For example, between 1920 and 1939, the volume of internal trade in sugar increased three times, in cotton piece-goods, iron and steel, raw hide and skins and cement (1933 to 1939) it nearly doubled, and in tanned hides and skins and leather it increased eight times.[15]

Fourth, there occurred in this period a rapid shift of traditional "pre-capitalist" accumulations in trade, usury and landlordism to industry. While many of the princes financed big industry, a lot of trading–usury capital went into small enterprises.[16] This shift occurred partially because

[15] Subramanian and Homfray, *Recent Social and Economic Trends*, p. 51.
[16] See, for example, A.I. Levkovsky, *Capitalism in India*, Delhi, 1966, pp. 233ff. and 319.

the two World Wars and the Depression (as well as the fall in world demand for Indian primary products) reduced the traditional opportunities for investment in trade, indigenous banking, usury and landlordism. The same factors combined with the fact that the colonial state was forced to raise tariff duties on imports (see Chapter 6), created opportunities for indigenous industrial investment.

Fifth, as compared to the pre-First World War period, in the post-War period up to 1945 there was a gradual but consistent shift in the pattern of foreign trade with the proportion of manufactured goods in total exports showing a significant increase and in total imports showing an even more significant decrease. Conversely, the proportion of raw materials in total exports showed a definite decrease and the proportion of raw materials and capital goods (as opposed to consumer goods) in total imports showed a comparative increase.[17] There was here a tendency, however hesitant, towards the reversal of India's traditional colonial pattern of foreign trade, though the pattern still remained largely colonial till independence. The example of sugar illustrates aspects of the new tendency. The import of sugar (a manufactured consumer good) fell dramatically in the inter-war period leading to the commencement of exports by 1937 (see Table 1.1). On the other hand, the value of imports of sugar *machinery* shot up from Rs 1.75 million in 1920–21 to Rs 87 million in 1932–33, at constant prices.[18]

Sixth, contrary to traditional belief,[19] the actual net inflow of foreign capital to India was never very large and virtually insignificant in the form of industrial investments. Most foreign capital in the twentieth century came in the form of loans to meet the balance of payment deficits caused in no small measure by unilateral transfers made to the metropolis in the form of home charges and debt servicing or interest charges and dividends accruing due to earlier foreign loans and investments. In fact, if one pitted outflows on current account due to interest, dividends and home charges against net inflow due to foreign borrowing on the capital accounts, one would find that there was an outflow of capital from India virtually throughout the colonial period and certainly after the First World War.[20] However, even if one considers only the flows in the capital account, then also it is evident that foreign capital inflow fell off after the spurt of the early 1920s, and, by the early 1930s, Indian repayments and repatriation of

[17] See R.L. Varshney, "Foreign Trade", in V.B. Singh, ed., *Economic History of India, 1857–1956*, Bombay, 1965, pp. 457–77; Subramanian and Homfray, *Recent Social and Economic Trends*, p. 47; Tomlinson, *Political Economy of the Raj*, p. 31.

[18] Bagchi, *Private Investment*, Table 12.2, p. 367.

[19] It was assumed that imperialism of the third stage necessarily meant massive foreign investment in the colonies. See, for example, R.P. Dutt, *India Today* (second Indian edition), Calcutta, 1970, Chapter 6.

[20] See Bagchi, *Private Investment*, p. 160; and A.K. Bannerji, *India's Balance of Payments: Estimates of Current and Capital Accounts from 1921–22 to 1938–39*, Bombay, 1963, pp. 195 and 200.

foreign debt and earlier foreign investments exceeded fresh investments, i.e., there was a net outflow of foreign capital.[21] The process of repatriation which began in the early 1930s picked up after 1935, and, with the onset of the Second World War, both repatriation of sterling public debt and retirement of private foreign loans and investments increased rapidly.[22]

In fact, during the Second World War, when Britain made large war purchases in India, India ceased to be a debtor country and by 1946 had accumulated as *credit* against Britain a whopping sterling balance of nearly Rs 17,000 million (see Chapter 5). Further, the dependence on the London money market for Indian government borrowing was also reduced dramatically after having peaked in the mid-1930s. While in 1934 sterling debt (or external debt) represented nearly 43 per cent of India's total public debt, by 1945 sterling debt accounted for only 4 per cent, i.e., 96 per cent of the public debt was raised internally.[23]

The accumulation of the sterling balances and the relative freedom from the London money market gave the Indian economy a certain autonomy and an improved bargaining position. Purshotamdas Thakurdas, an eminent contemporary financial expert and one of the foremost leaders of the Indian capitalist class, felt that India's transition from a debtor to a creditor country gave "a greater autonomy to the rupee" and made it possible "to free it from the apron strings of the sterling and to follow a currency policy [suited] to the requirements of Indian agriculture, industry and trade". He added that if a national government was established after the war it would not only have the will but now also the *ability* to pursue a currency policy suited to Indian needs.[24]

Further, for a variety of reasons, areas where traditional foreign capital (European-controlled business in India where a large part of the investments were internally raised) dominated, for example, plantations, jute and foreign trade, underwent a relative stagnation after the First World War. Also, a dual process of repatriation of foreign capital from these sectors and of Indianization of ownership (and gradually control) set in.[25] On the other hand, the intrusion of a new type of foreign capital in the form of direct investments by multinational corporations during the 1920s and 1930s, remained very small till independence,[26] especially when compared

[21] Bannerji, *ibid*.

[22] *Ibid*.; and Michael Kidron, *Foreign Investment in India*, London, 1965, pp. 53ff.

[23] See Tomlinson, *Political Economy of the Raj*, p. 155; and Subramanian and Homfray, *Recent Social and Economic Trends*, Table XX, p. 75.

[24] Purshotamdas's article, "Currency and Exchange" in a volume published by the American Academy of Political and Social Science, May 1944, *Purshotamdas Thakurdas Papers* (henceforth *PT Papers*), Nehru Memorial Museum Library (henceforth NMML), New Delhi, folio (henceforth fl.) 381.

[25] Kidron, *Foreign Investment in India*, pp. 10–11 and 40ff.

[26] Some scholars sometimes greatly exaggerate their role, seeing in them the ushering in of "dependent capitalism". See Bagchi, "Foreign Capital". However, the balance of payment

to the rapid growth of indigenous enterprise in this period. For example, between 1921 and 1938 the net foreign industrial investment was worth £17 million, while the new investment in Indian industry was estimated to be £144 million.[27] Also, between 1914 and 1947 the paid up capital of rupee companies (or companies registered in India) grew more than twice as fast as the increase in the paid up capital of sterling companies. In fact between 1929 and 1947 the paid up capital of rupee companies doubled while that of sterling companies stagnated, showing an actual decline after the peak reached in 1932–33.[28] Foreign direct investments, however, did increase considerably after independence but they were kept under strict control and were not allowed to acquire a dominant position either in the overall economy or in most of the critical sectors of the economy.[29]

Last, between 1914 and 1947, the Indian capitalist class, *through a process of economic and political struggle*, and taking advantage of the two wars and the Great Depression[30] as well as the specific crisis faced by British imperialism during these years, was able to significantly increase its hold over the Indian economy vis-à-vis foreign capital. This was achieved chiefly through the following three processes: (*a*) by entering new areas almost exclusively and accounting for the overwhelming proportion of the new investments made after the 1920s, for example, in sugar, cement, paper, heavy chemicals, iron and steel, etc.,[31] (*b*) by edging out or encroaching upon in greater or smaller degree the various traditional areas of European influence and dominance, for example, banking, life insurance, jute, textiles, partially shipping, foreign trade, coal, and tea,[32] (*c*) through faster growth, in terms of investment and output, in economic sectors and geographical regions where Indian capital dominated, as opposed to those where European interests were dominant, for example, cotton vs. jute, Bombay and other interior regions vs. Bengal and the metropolitan

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figures of this period do not suggest any massive inflow of foreign direct investment. See, for example, Bannerji, *India's Balance of Payments*, pp. 195, 200, etc. As Rajat Ray put it, "As a matter of fact the entry of multinationals did not bring any appreciable addition to the level of investment", *Industrialisation in India*, p. 274.

[27] Tomlinson, *Political Economy of the Raj*, pp. 48–49.

[28] See Ray, *Industrialisation in India*, Table 10, p. 42; Subramanian and Homfray, *Recent Social and Economic Trends*, Table XVII, A and B, pp. 63–65; and Arun Bose, *Indo-British Big Business Deals*, Delhi, 1947, pp. 9–10.

[29] See Mukherjee and Mukherjee, "Imperialism and the Growth of Indian Capitalism"; and Arun Bose, "Foreign Capital", in Singh, *Economic History of India*.

[30] See Bipan Chandra, "Colonialism and Modernisation", in Bipan Chandra, ed., *Nationalism and Colonialism in Modern India*, New Delhi, 1979, for a demonstration of how the Indian economy experienced spurts of growth when the links with imperialism were loosened during periods of crisis faced by the advanced metropolitan countries.

[31] Bagchi, *Private Investment*, Chapters 3 and 6, particularly, pp. 83ff. and 192ff.; Ray, *Industrialisation in India*, Chapter 3.

[32] Kidron, *Foreign Investment in India*, Chapter 2; and Bagchi, *Private Investment*.

centres, home market-oriented industries vs. export-oriented industries like jute and plantations, internal trade vs. foreign trade, and so on.[33]

A study done by the Gokhale Institute in 1951 clearly shows that the control of Indian capital in the larger industries in India extended rapidly in comparison to European control between 1915–16 and 1937, and between 1937 and 1943–44.[34] By 1944, Indian private capital controlled about 62 per cent of the larger industrial units employing 1,000 or more workers, and about 58 per cent of the labour force employed in such factories. The corresponding figures for British private capital were 27 per cent and 32 per cent. Indian capital thus controlled more than twice the number of the larger units controlled by British capital and slightly less than twice the labour force employed in such factories.[35]

Moreover, these larger establishments constituted only 4.7 per cent of the total factory units and employed nearly 57 per cent of the total factory labour.[36] In the rest of the factories, representing 95.3 per cent of the total units and employing 43 per cent of the labour force, Indian control was absolute.[37] This made the total Indian share in modern factory industry *including small-scale industry* very high indeed.[38]

One may point out here that the political and economic significance of total Indian control over the small-scale sector has been generally ignored, and bears a lot of emphasis. Recent works show that despite the much faster rate of growth of large-scale manufacturing compared to the small-scale sector between 1900 and 1947, the income generated from the small-scale sector was larger than that generated in large-scale manufacturing till as late as 1941.[39] Besides, the fixed investment and total capital employed in certain sectors like cotton gins and presses and flour mills (rarely noticed and entirely Indian) was far greater than that employed in areas

[33] Bagchi, *ibid.*, pp. 83ff. and 433ff.

[34] Gokhale Institute, *Notes on the Rise of Business Communities in India*, New York, 1951.

[35] *Ibid.*; and Ajit Roy, *Indian Monopoly Capital*, Calcutta, 1953, pp. 18–20. The share of non-British foreign capital was not very significant.

[36] Roy, *ibid.*, p. 2; and Levkovsky, *Capitalism in India*, p. 366.

[37] In a rather generous estimate for 1947, Shirokov calculated that foreign enterprises owned 8.4 per cent of the enterprises and employed 24.3 per cent of the total labour force in organized industry, and in the bigger enterprises (employing more than 1,000 workers) the corresponding foreign shares were 30.2 per cent and 38.2 per cent. Also, by 1948, foreign companies controlled at best about 25 per cent of the total investments in private industry, leaving a rather large share for Indian investment. G.K. Shirokov, *Industrialisation in India*, Moscow, 1973, pp. 47–48.

[38] In fact exclusion of the small sector, as well as dependence on sources relating to metropolitan areas where foreign capital dominated, often give a misleading picture of the overall control and influence of foreign capital. See, for example, Ray, *Industrialisation in India*, pp. 43ff.

[39] See S. Sivasubramonian, "Income from the Secondary Sector in India, 1900–47", *The Indian Economic and Social History Review* (henceforth *IESHR*), Vol. 14.4, October–December 1977, Table 20, pp. 491–92.

such as woollens, soap, glass, matches and basic chemicals.[40] Politically, too, the fact that virtually the entire small sector in India was Indian-owned contrasts with other colonies like Egypt and Indonesia, where it was Greek, Syrian or Chinese. These differences had major implications for the size, strength and politics of the indigenous national bourgeoisie, and for the potential success of divisive imperial tactics.

Estimates of the rough share of Indian capital's control of the domestic market have also been made. On the eve of independence, the share of foreign enterprise in the total gross output of Indian industry was only 25 per cent.[41] Since roughly half of it was for export, one can say that about 12.5 per cent of the internal market was controlled by foreign enterprises in India. If we add to this the share of the market that was supplied by imports, then it emerges that foreign capital both from outside and within India together controlled not more than 27 or 28 per cent of the domestic market.[42] This left about 72–73 per cent of the domestic market to indigenous enterprise even before independence. Also, the assets and paid up capital of the larger Indian companies expanded rapidly towards the end of our period leaving the top European houses far behind.[43]

In the financial sphere also, where, earlier, European capital was supreme, the Indian capitalists made massive inroads. While in 1914 foreign banks held 70 per cent of the deposits, by 1937 they held 57 per cent, and by 1947 a mere 17 per cent.[44] In the 1940s, Indian companies showed rapid growth in the insurance business as well, especially in life insurance. By 1947, Indian insurance companies wrote over 90 per cent of the new life insurance business transacted in India and their share in the total life insurance business in force in India had risen from a negligible figure to as much as 83 per cent.[45]

Perhaps the huge financial accumulations that the Indian capitalists made through speculation in goods, bullion, shares, etc., during the two

[40] Levkovsky, *Capitalism in India*, Table XXXII, p. 287.

[41] Shirokov, *Industrialisation in India*, pp. 48–49.

[42] *Ibid*.

[43] In 1946, total assets of the houses of Tata, Dalmia–Jain and Birla were Rs 6000 million while those of the three largest European companies, Andrew Yule, Bird Heilgers and Martin Burn (Indo-British) were only 740 million. Similarly, between 1939 and 1948, the paid up capital of Tata and Birla increased from Rs 21 million and Rs 11.5 million to Rs 364 million and Rs 206 million respectively. While, apart from these, two other Indian companies had crossed the 100 million mark by 1948, there was only one European company, Bird Heilgers, with Rs 116.70 million which had managed to do so. Shirokov, *Industrialisation in India*, p. 49; and B.R. Tomlinson, "Foreign Private Investment in India, 1920–50", *Modern Asian Studies* (henceforth *MAS*), Vol. 12.4, October 1978.

[44] Kidron, *Foreign Investment in India*, p. 42; and Gokhale Institute, *Notes on the Rise of Business Communities*.

[45] See Purshotamdas's letter to *Insurance World*, sent on 12 May 1947, *PT Papers*, fl. 376, pt. I. Also see R.W. Goldsmith, *The Financial Development of India, 1860–1977*, New Haven, 1983, p. 102.

World Wars represented windfall gains which, in a sense, shortened the period of long primary accumulation necessary before shift to industry was possible (especially as the traditional accumulations in banking and foreign trade were largely destroyed with the coming of the British), rather than acted as constraints on the development of industrial capitalism. However, given the constraints put by the colonial state and structure (see Chapters 5 and 9 in this volume) the Indian capitalists were unable to fully utilize these accumulations for the expansion of their production base,[46] especially through new investments. As a result, a large part of these accumulations were used up, especially in the 1940s, to rapidly buy up existing European companies. In fact, one of the crucial problems faced by the Indian capitalists was the "realization problem"—it was not shortage of resources but how to create conditions for converting the available resources into productive investment which bothered them.[47]

The various factors listed above suggest that what are considered to be some of the typical disarticulating features of an extroverted colonial economy[48] were, to an extent, however hesitatingly, getting reversed, even within the overarching colonial structure. First, there was a growing tendency towards surplus value being appropriated through extended reproduction in the colony, and it was being accumulated and invested by an independent indigenous bourgeoisie within the constraints of a colonial economy. This was different from a typical colonial situation where extended reproduction did not take place in the colony or extended reproduction occurred in the colony but surplus value was appropriated by a metropolitan bourgeoisie and invested in the metropolitan countries. Second, there was a growing tendency towards indigenous industry being articulated with indigenous agriculture and the home market. Thus the typical colonial feature of the colony's agriculture and its home market being articulated with metropolitan industry was showing a marked decline. Third, the hold of foreign capital was declining; and the indigenous bourgeoisie had gradually acquired a dominating position in the indigenous production sphere as well as in the home market. Last, the colonial economy, like the indigenous bourgeoisie, had acquired a minimal strength and bargaining position vis-à-vis the metropolitan centre. For example, the economy, instead of being weighed down by a huge debt, now enjoyed large foreign exchange balances, and the colonial bourgeoisie

[46] The capitalists through the Federation of Indian Chambers of Commerce and Industry (henceforth Federation or FICCI) repeatedly castigated the colonial government for not allowing them to expand into various areas of production.

[47] See Chapter 10 in this volume. One may perhaps show a linkage between the more belligerent phases of Indian capitalists vis-à-vis the colonial government and their unrealized accumulations.

[48] See Alavi, "Structure of Colonial Social Formations"; and Amin, *Accumulation on a World Scale*, pp. 15ff.

was able to bargain effectively while associating with foreign capital in setting up enterprises,[49] or while negotiating trade agreements with Britain.[50]

Thus, the Indian economy and the Indian bourgeoisie were in a much stronger position compared to most other colonies on the eve of independence. In any case, some prejudices apart, India at that moment did not appear to be in the most appropriate position for the ushering in of "dependent capitalism" of the neo-colonial type.

II. Decolonization?

Having said all this, it is absolutely necessary to clarify that all the developments I have listed above, suggesting the growth of a certain level of independent capitalism within the colonial structure, did not occur as a result of colonialism. They were not produced by colonialism but were a product of the space *wrenched* from it. It is easily demonstrable that all the developments listed above, occurred (to list some of the causes) either (*a*) as a result of the struggle, political and economic, against imperialism, whether through the national movement, legislative assemblies, business chambers or directly by enterpreneurs, as in shipping, or (*b*) when the grip of imperialism weakened or loosened due to world factors autonomous of the logic of the colonial system in the colony, such as the World Wars and the Great Depression, or (*c*) when the principal metropolis lost out in competition to other metropolitan centres and preferred to permit indigenous enterprise in the colony to grow rather than allow other foreign powers to capture the colonial market, for example, protection to cotton, iron and steel, matches and sugar was related respectively, to competition from Japan, Belgium and Germany, Sweden, and Java, a Dutch colony (see Chapter 6 in this volume), or (*d*) due to the inner contradictions of colonialism itself, for example, the increasing need for revenue from the colony could no more be met from a by now stagnating or even declining agriculture but had to be met through revenue tariffs on imports, which provided indigenous manufacture certain amount of protection (see Chapter 6). In other words, the specific non-colonial type of developments in the twentieth century occurred *not as a result of colonialism but in spite of or in opposition to it.*

[49] See Chapter 10 in this volume.

[50] The early twentieth century when the Indian capitalist class was dependent on the British umbrella to protect its foreign markets (e.g., in China) contrasts sharply with the 1930s when the Indian capitalists with their inward orientation and greater control over the home market could reject the Ottawa Trade Agreement, partially the Modi–Lees Pact and bargain strongly in the Indo-British Trade Agreement of 1937–39, which also they ultimately rejected. See A.P. Kannangara, "Indian Millowners and Indian Nationalism Before 1914", *Past and Present*, No. 40, 1968; and Chapters 7 and 8 in this volume.

It is necessary to emphasize this aspect to disabuse the crude notions of "decolonization" popular both in "Right"[51] and "Left"[52] wing interpretations. These notions imply that imperialism pulled out of its own volition as the colony ceased to pay, or that imperialism continued in an altered form encouraging industrialization and therefore the colonial bourgeoisie had no basic contradictions with it.

The reality was very different. Though the Indian capitalist class increased its strength, imperialist exploitation and the consequent underdevelopment did not cease, and the colony, far from ceasing to pay, was subjected to a greater and most blatant direct appropriation of surplus through currency manipulations, forced loans, large military expenditures and numerous other unilateral transfers.[53] Also, though India's importance as a market for British goods, in terms of volume of imports, had declined, she remained nevertheless one of Britain's most important markets.[54] The Indian economy till 1947 remained essentially backward and structurally colonial. Imperialism continued to put major fetters on industrialization. The Indian economy at independence was still basically dependent on a stagnating, low productivity, "semi-feudal" agriculture with modern industry (in 1950) contributing a mere 6 to 8 per cent of the national income and (in 1951) employing 2.3 per cent of the labour force.[55] Foreign capital continued its hold in certain important sectors and the dependence on the world capitalist system for capital goods and technology remained a dependence which the Indian capitalist class[56] and later

[51] The Right wing interpretations are best seen in the works of Dewey and Drummond where it is even argued that after the First World War it was India which was in many respects exploiting Britain, rather than the other way round. I.M. Drummond, *British Economic Policy and the Empire, 1919–1939*, London, 1972; Clive Dewey, "The End of Imperialism of Free Trade: The Eclipse of the Lancashire Lobby and the Commission of Fiscal Autonomy to India", in Clive Dewey and A.G. Hopkins, eds, *Imperial Impact: Studies in the Economic History of Africa and India*, London, 1978. For an interesting variation on the decolonization thesis, see Tomlinson, *Political Economy of the Raj*.

[52] The Left wing view originated among Communists in the 1920s with overtones of it remaining till today. See Mukherjee, "The Workers' and Peasants' Parties", for a brief summary of the Communist view. See also, Sobhanlal Datta Gupta, *Comintern India and the Colonial Question, 1920–1937*, Calcutta, 1980.

[53] See Chapters 3–6 in this volume. The apparent paradox of a simultaneous growth of the indigenous capitalist class and an increase in imperialist exploitation is explained by the fact that the brunt of the impact of the latter was borne by the less privileged sections of the Indian people, and that part of the growth of the Indian capitalist class occurred not by adding *new capacity* but by the acquisition of British firms.

[54] See Chapter 6 in this volume; Tomlinson, *Political Economy of the Raj*, pp. 46–47; and Basudev Chatterjee, "Business and Politics in the 1930s, Lancashire and the Making of the Indo-British Trade Agreement, 1939", *MAS*, Vol. 15.3, 1981.

[55] Bipan Chandra, "Colonial Legacy", in Bimal Jalan, ed., *The Indian Economy: Problems and Prospects*, New Delhi, 1992.

[56] See Chapters 10 and 11 in this volume.

the independent Indian state[57] made efforts to break, not without considerable success.

The reason why I have emphasized here the specific *non-colonial* type of developments occurring in India in the twentieth century is to show the nature of the economic development of the Indian capitalist class, the manner in which it was achieved and to suggest that the economic situation in India had become one where it was by no means impossible for an independent national bourgeoisie to develop. In the following chapter I shall look into the politico-ideological dimension of the formation of the Indian capitalist class and examine its relationship with imperialism, the national movement and other classes in that context.

[57] See Mukherjee and Mukherjee, "Imperialism and Growth of Indian Capitalism".

Two

The Politico-Ideological Dimension

I. Emergence of Class Organization

It was in the nineteenth century that initial efforts at organizing the capitalist interests in India began. The first business associations in India were formed by British business interests. With the final withdrawal of the East India Company from commercial activity in 1833 the British agency houses and individual businessmen felt the need for an institution which would represent their business interests to the government. Consequently, in 1833, the Calcutta Chamber of Commerce (later renamed the Bengal Chamber of Commerce) was formed. This was followed by the formation of the Bombay and Madras Chambers of Commerce in 1836. In 1920 a central organization of all the British chambers in India, the Associated Chambers of Commerce of India and Ceylon (Ceylon was dropped in 1932) was formed.[1]

The Bombay Native Piecegoods Merchants' Association founded in 1882 was perhaps the first *Indian* modern trade association—as distinct from traditional guilds (*mandals* or *sammelans*). The first Indian chamber of commerce, the Native Merchants' Chamber of Coconada (later renamed Godavari Chamber of Commerce), was established in 1885, the year the Indian National Congress was founded. Within two years, in 1887, the Bengal National Chamber of Commerce was established. Prominent early nationalists like Surendranath Bannerji, A.M. Bose and Narendra Nath Sen were elected honorary members of the Chamber and on Bannerji's invitation the Chamber sent delegates to the third session of the Indian National Congress held at Madras.[2] There was, from the beginning, a link

[1] See B.R. Sabade and M.V. Namjoshi, *Chambers of Commerce and Trade Associations in India*, Poona, 1977, pp. 29ff. and 56–57.

[2] *Ibid.*, pp. 35–36; and *Silver Jubilee Souvenir, FICCI*, New Delhi, 1952, pp. 4–5.

between the emerging national movement and the formation of a number of Indian chambers and trade associations, a link which continued into the twentieth century and was evident, for example, in the very process of the formation of a federation of business associations from all parts of India.

Nationalist leaders like M.G. Ranade took the initiative to organize the Industrial Association of Western India in 1890 and the Industrial Conference which first met in Poona in the same year. Since 1905 the Indian National Congress started holding the Indian Industrial Conference along with its annual sessions. The first Indian Industrial Conference was presided over by R.C. Dutt. Other eminent nationalists, as well as businessmen, like Madan Mohan Malaviya, Lajpat Rai, Dinshaw Wacha, Vithaldas Thackersay and Lallubhai Samaldas were closely associated with the Conference. At the ninth Indian Industrial Conference at Karachi, 1913, a resolution proposed by C.Y. Chintamani and seconded by Lala Lajpat Rai called for cooperation and coordination between the existing Indian chambers of commerce and trade associations as well as for the setting up of more such chambers and associations in areas where none existed.[3]

In 1915, the Indian Merchants' Chamber, Bombay, which from its inception in 1907 was closely associated with the Indian national movement, organized the first Indian Commercial Congress. At this Congress it was resolved that efforts should be made to form a federation of Indian chambers of commerce. Initially no progress occurred in this direction. In the meantime the Indian Industrial Conference and the Indian Commercial Congress were merged to form the Indian Industrial and Commercial Congress in 1920.[4]

Once again, efforts were made by the newly formed Indian Industrial and Commercial Congress and by leading capitalists like G.D. Birla and Purshotamdas Thakurdas to establish a national level organization of Indian commercial, industrial and financial interests.[5] The objective was to form an Indian organization which was distinct from the relatively more organized European interests and which represented not sectional interests but all interests belonging to all communities and regions, whether they be industrialists, exporters, importers, or Hindus, Muslims, Parsees or Marwaris.

These efforts culminated in the formation of the Federation of Indian Chambers of Commerce in 1927. Two years later the name was changed to Federation of Indian Chambers of Commerce and Industry (commonly referred to as Federation or FICCI). The Federation acquired a large and

[3] *Silver Jubilee Souvenir*, pp. 7–8; Sabade and Namjoshi, *Chambers of Commerce*, p. 57; and Bipan Chandra, *The Rise and Growth of Economic Nationalism in India*, Delhi, 1966, pp. 87–88.

[4] *Silver Jubilee Souvenir*, pp. 7–10; and Sabade and Namjoshi, *Chambers of Commerce*, p. 57.

[5] See for example, G.D. Birla to Purshotamdas, 7 December 1923, *PT Papers*, fl. 42, pt. 3; and *Report of the Fourth Session of the Indian Industrial and Commercial Congress*, Calcutta, December 1926.

rapidly increasing representation from all parts of India. In 1927, FICCI started with 24 chambers of commerce and mercantile, industrial and financial associations as its members (see Appendix 1), the number rising to 37 in 1929, 75 in 1942, 95 in 1945 and 103 in 1947. Some of the members of FICCI like the Indian Chamber of Commerce, Calcutta, the Southern India Chamber of Commerce, Madras, the U.P. Chamber of Commerce, Cawnpore, the Ahmedabad Millowners' Association, the Bombay Shroff's Association and the East India Jute Association, Calcutta, were themselves very large organizations with the Indian Merchants' Chamber, Bombay boasting of 1,082 members in 1944 and 2,716 members in 1951 out of which as many as 123 were association members. As a result, pepper and ginger merchants, oilseeds and grain merchants, jute balers, hides and skins merchants, owners of textile mills, paper mills, engineering companies, insurance companies, shipping companies, collieries, and tea plantations, to name just a few, all found representation in FICCI.[6] Soon after its formation FICCI was recognized by the British government as well as the Indian public in general as representing the dominant opinion if not the consensus within the Indian capitalist class.

The Federation, while representing the larger interests of the capitalist class as a whole, was occasionally faced with conflicts within the class, as would be expected in any class organization. The only occasions when any major overt conflict arose within the Federation between sections representing different business interests were in 1944 and 1946, when the small trading interests accused the Federation of being dominated by industrialists and of not fully protecting their interests.[7] The Federation leaders, however, with their imaginative leadership, were able to resolve these intra-class conflicts, which generally arose from narrow local level issues.[8] They did so by taking up the cause of the aggrieved sections to the extent that it was compatible with the interests of the class as a whole.[9] More

[6] Information on the membership of FICCI is based on the following sources: *Silver Jubilee Souvenir*, pp. 51–52 and 234–53; FICCI, *Correspondence Volumes* (henceforth FICCI, *Corresp.*) 1945, p. 266; FICCI, *Corresp.*, 1947, pp. 100–101; *Walchand Hirachand Papers* (henceforth *WH Papers*) NMML, New Delhi, fl. 61, pt. 1 and fl. 8, pt. 1; and G.L. Mehta, "Commercial Organisation in India", in the India number of the *Journal of the Academy of Political and Social Science*, USA, 5 December 1942, *WH Papers*, fl. 82, pt. 2.

[7] See FICCI, *Annual Reports* (henceforth *AR*), 1944, pp. 101–9; and *AR*, 1946, pp. 178–80 and 186–90.

[8] The work of A.D.D. Gordon, *Business and Politics, Rising Nationalism and Modernising Economy in Bombay, 1918–1933*, New Delhi, 1978, constantly emphasizes the conflicts between industrialists and what he calls "marketeers". Gordon however misses the point that the conflicts were based on local (often even municipal) level rivalries and fails to identify the unity of these sections on wider, long-term class issues. See my review of Gordon, in *Indian Historical Review*, Vols 9.1–9.2, 1981, pp. 214–22, for a more detailed critique of Gordon's work.

[9] For example, while supporting the general demand of the traders against government control on distribution of goods during the Second World War, the Federation supported controls on essential commodities in scarce supply. FICCI, *AR*, 1947, p. 13. This was necessary in

important, they pointed out the interdependence of each section (trade, finance or industry) on the other, constantly reiterated the common interest of the class as a whole and emphasized the need to present a "united front" vis-à-vis their common enemy, the "third party", i.e., the colonial interests.[10] There were of course other occasions when conflicts occurred within the Federation, but they were born out of political or ideological differences rather than out of divergence of interests of various sections of the class, i.e., there was a considerable overlap between sections of the class, on either side.

The Federation also kept remarkably free of any significant communal or regional divisions within the organization. It was only in the late 1940s, in the immediate years before independence and partition of India when Pakistan as a separate state was very much on the cards, that the conscious efforts by the Muslim League, since 1939, to mobilize Muslim capitalists in a separate communal organization[11] began to bear some fruit.[12] The Federation even then continued to maintain its efforts to represent all business interests irrespective of any communal considerations. The Muslim Chamber of Commerce despite having turned communal continued to be affiliated to FICCI and M.A. Ispahani, one of the foremost leaders of the Muslim chamber, was elected by the general body to the executive committee of FICCI.[13] The Federation, however, strongly opposed government attempts to give business interests "representation on communal basis" to various public bodies. Just as earlier the European business interests, through the Associated Chambers of Commerce and Industry, were given separate representation, the government was now (in the 1940s) accused of doing the same with the newly formed Federation of Muslim Chambers. It was argued that representation on a communal basis would lead to disastrous results as it would "perpetuate the virus of communalism".

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the interest of the mass of consumers, and also in order not to project the Federation as actively supporting profiteering, etc., thus discrediting the organization as a whole.

[10] See, for example, Purshotamdas in FICCI, *AR*, 1944, pp. 101–9; A.D. Shroff and G.D. Birla in FICCI, *AR*, 1946, pp. 102 and 68; and FICCI President J.C. Setalvad and A.D. Shroff in FICCI, *AR*, 1945, pp. 196–99. Interestingly, in 1933, Shroff and Setalvad were the "rebels" in the Federation demanding greater say in decision making and arguing for the Federation becoming more representative. *Ibid.*; and FICCI, *AR*, 1933, pp. 143ff.

[11] In 1939, Jinnah for the first time began to take positions on economic matters on the basis of "Muslim capitalist" and "Hindu capitalist" interests. Before that on all economic issues he had argued on the basis of what he perceived to be Indian interests. See *Legislative Assembly Debates* (henceforth *LAD*) Vol. 3. 28 March 1934, pp. 2893–98; and Chapter 9 in this volume.

[12] See Bipan Chandra, *Communalism in Modern India*, New Delhi, 1984, p. 75; Hanna Papaneck, "Pakistan's Big Businessmen: Muslim Separatism, Entrepreneurship and Partial Modernisation", *Economic Development and Cultural Change*, Vol. 21.1, 1972; and Rachana Sharma, "The Indian Capitalists and Communalism: 1920–47", Unpublished M. Phil. Dissertation, Centre for Historical Studies, Jawaharlal Nehru University, New Delhi, 1991, pp. 98ff.

[13] FICCI, *AR*, 1946, p. 169.

The demand was that the Federation be considered as "the only central organization" representing all commercial and industrial interests.[14]

It must be noted that the Federation, while representing all Indian business interests irrespective of communal considerations, did succeed in keeping the organization free from any significant communal division. It was only in 1946, when the entire nation was rocked by the massive spread of communalism, that for the first time any communal controversy occurred in the annual meeting of FICCI.[15] This was condemned by the FICCI President and the controversy was diffused amidst the regret that a communal question was allowed to come up despite the Federation's record, since its inception, of keeping away from such controversy.[16]

On the whole, the Indian capitalist class had succeeded, by the end of the 1920s, in creating a class organization on a national basis which effectively subsumed within it or subordinated various existing divisions within the class in the long-term interests of the class as a whole. It can safely be argued that by this period an Indian capitalist class had emerged as a structured class or "class for itself" though some sections still remained outside FICCI. The point is that the process of the formation of a national capitalist class had taken off, though it was not yet completed. Perhaps, such a process never gets completed fully for any class. I disagree with the view, often held, which denies the emergence of the process itself.[17] I may add here as an aside that the heterogeneity of the ethnic, caste, religious and regional origins of the Indian capitalists did not preclude their emergence as an all-India class any more than the Italian, Jewish, Polish or German origins of the American capitalists precluded the formation of an American capitalist class.

The Federation was treated by the capitalists as a platform from which redressal could be sought from the government for the immediate grievances of various sections of the capitalist class, and also as a forum for organizing public opinion, both within the class and outside, on larger issues which affected not only the Indian capitalists but the Indian

[14] D.G. Mulherkar, Secretary, FICCI, to C.H. Bhabha, Commerce Member, Government of India, 5 August 1947, FICCI, *Corresp.*, 1947, pp. 100–101. See also, Mulherkar to Purshotamdas, 18 November 1944, *PT Papers*, fl. 336.

[15] The controversy arose with A.R. Siddiqui of the Muslim Chamber making certain communal remarks about the role of traders and zamindars (both generally Hindu) in the Bengal famine. FICCI, *AR*, 1946, pp. 38–40.

[16] *Ibid.*, p. 47.

[17] For example, Claude Markovits argues: "By 1930, the business communities of India were still a very heterogenous lot, and, in spite of the creation of the FICCI in 1927, could hardly be called a capitalist class in any accepted sense of the term." "Indian Business and Nationalist Politics from 1931–39", D.Phil. dissertation, University of Cambridge, 1978, p. 246. See also, Claude Markovits, *Indian Business and Nationalist Politics 1931–39: The Indigenous Capitalist Class and the Rise of the Congress Party*, Cambridge, 1985, pp. 19ff. and p. 182.

economy as a whole.[18] In the process the Indian capitalists, with some of the most astute minds of the period in their ranks, developed over time a fairly comprehensive economic critique of imperialism in all its manifestations—whether it be direct appropriation through home charges, or exploitation through trade, finance, currency manipulations or foreign investments—including in their sweep the now fashionable concept of unequal exchange occurring in trade between countries with widely divergent productivity levels.[19] They kept a watchful eye on the complex national and international developments, especially those vis-à-vis imperialism, which had a bearing on Indian economic development and forcefully argued the national position. Chapters 3 to 11 in this volume give a detailed account of the capitalists' understanding of how imperialism and the policies of the colonial state prevented Indian economic development and of the capitalists' wide ranging efforts to combat the former in pursuance of their goal of independent capitalist development.

The leaders of the Indian national movement often saw the assistance of the capitalists as invaluable and treated their opinions and expertise on many national economic issues with respect.[20] The leaders of the capitalist class also clearly saw the role of FICCI as being that of "national guardians of trade, commerce and industry", performing in the economic sphere in colonial India the functions of a national government.[21]

However, FICCI was not to remain merely a sort of trade union organization of the capitalist class fighting for its economic demands and doing ideological propaganda to achieve the same. The leaders of the capitalist class clearly saw the necessity of the class effectively intervening in politics. As Purshotamdas, the President of FICCI, declared at its second annual meeting: "We can no more separate our politics from our economics."[22] Further, involvement of the class in politics meant doing so on the side of Indian nationalism. "Indian commerce and industry are intimately associated with and are, indeed, an integral part of the national movement—growing with its growth and strengthening with its strength."[23]

[18] See, for example, A.L. Ojha, FICCI President, FICCI, *AR*, 1941, pp. 22–24; and G.D. Birla, FICCI, *AR*, 1946, p. 71.

[19] For an interesting awareness of "unequal exchange", see G.D. Birla, FICCI, *AR*, 1934, p. 173; S.P. Jain and B.M. Birla, FICCI, *AR*, 1943, pp. 129, and *AR*, 1946, pp. 104–5, respectively.

[20] See Motilal Nehru to Purshotamdas, 3 December 1924, *PT Papers*, fl. 40, pt. II; Gandhi to Viceroy, 29 August 1931 and G.D. Birla to Purshotamdas, 21 July 1931, *PT Papers*, fl. 104.

[21] See, for example, Sir Sri Ram, FICCI, *AR*, 1943, p. 150; and Sir Muthiah Chettiar, President, FICCI, *AR*, 1944, p. 205.

[22] FICCI, *AR*, 1928, p. 4. Purshotamdas's speech, including his exhortation to enter politics, received a warm welcome from many Indian capitalists. See, for example, R.D. Birla to Purshotamdas, 1 January 1929, G.D. Birla to Purshotamdas, 14 December 1928, Visvesvarayya to Purshotamdas, 4 January 1929, *PT Papers*, fl. 78.

[23] Purshotamdas, FICCI, *AR*, 1928, p. 4.

A little later G.D. Birla was to confess that, contrary to what was earlier anticipated, it was clear now that "it is impossible in the present…political condition of our country to convert the government to our views… the only solution… lies in every Indian businessman strengthening the hands of those who are fighting for the freedom of our country".[24] While political freedom was seen as necessary for the prosperity of the country, as well as of the capitalist class,[25] it was clearly recognized that self-government was not going to be achieved through "reforms in small instalments from dyarchy to diluted provincial autonomy and so on endlessly until some day… it may be doomsday, when in the opinion of her mentors she [India] is fit to be granted full responsibility",[26] but had to be fought for, as seen from the historical experience of other British dominions.[27] Therefore the capitalists were urged to "fight and strengthen the hands of those who are fighting for Swaraj".[28]

To what extent was the capitalist class capable of fighting imperialism; and how did it propose to do so? In the next section I shall discuss the often repeated proposition that the Indian capitalist class had certain inherent weaknesses which made it incapable of fighting imperialism or at least of doing so in a full and complete manner. In the last section I shall discuss the capitalist class's strategy and tactics for "fighting for Swaraj" and its relationship with the Indian national movement.

II. Imperialism and the Capitalist Class

One of the most persistent views about the Indian capitalist class has been that (*a*) its dependence on foreign capital and interest in trade, especially in imported goods, (*b*) its links with feudal landowning interests, and (*c*) its fear of the Left or popular movements from below led it either to surrender or to repeatedly compromise and collaborate with imperialism, rather than put up a consistent struggle against it. This argument was first put forward by the Communists over 60 years ago in the 1920s, applying mechanically the experience of countries like China to India, and has been repeated in its substance ever since till today.[29] Surprisingly, the same view continues to be held, with even less justification, for the post-colonial

[24] Concluding speech of G.D. Birla as President, FICCI, *AR*, 1930, p. 264.

[25] *Ibid*.

[26] Purshotamdas's speech on 11 October 1928, while proposing a resolution in support of the Nehru Report, *The Hindu*, 12 October 1928, in *PT Papers*, fl. 71, pt. 1.

[27] Purshotamdas to Stephen Demetriadi (President, London Chamber of Commerce), 25 May 1928, *PT Papers*, fl. 71, pt. 1.

[28] G.D. Birla, FICCI, *AR*, 1930, p. 264.

[29] For Communist characterization in the 1920s, see Mukherjee, "Workers and Peasants' Parties". For an example of a recent reiteration of the same view, see Sumit Sarkar, "Logic of Gandhian Nationalism: Civil Disobedience and the Gandhi Irwin Pact (1930–31)", *The Indian*

Indian capitalist class, not only by the different streams of the Indian Communist movement, though with certain variations,[30] but even in Marxist academic writing.[31]

Let us take a look at each of these generalizations: (*a*) As I have shown above, and discussed in detail elsewhere (see Chapters 1 and 10 in this volume), the Indian capitalist class grew independently and in opposition to foreign capital and throughout maintained a consistent opposition to domination of foreign capital. It somewhat softened its attitude towards foreign capital (even going in for collaborations with it) only when it had grown sufficiently in strength and was convinced of being able, with the help of an imminent independent national state, to utilize foreign capital for its own economic development without succumbing to foreign domination. Further, Indian capital was never dependent on foreign finance for resources for investment but only on foreign capital equipment and technology, a dependence which did not lead to the acceptance of a subservient position but on the contrary to a concerted effort, first by the capitalist class and later by the national state, to overcome it with the help of a multipronged strategy, not without considerable success.[32]

As for the capitalist class's links with trade, particularly in imported goods, the overall strategy of the Indian capitalist class appeared to remain unaffected by it. Not once in its entire history did FICCI argue for the expansion of these importing interests. On the contrary it consistently agitated for reduction in imports through protection and other measures.[33] In fact, in 1930, there was an active move on the part of the importers and distributors of foreign cloth in Calcutta who, "on account of the Swadeshi movement" were going to "give a pledge not to import or make new purchases of foreign cloth up to the end of current year at least", to make contact with Bombay and Ahmedabad millowners and switch to purchasing cloth from them. "There are people in this town among the cloth dealers who could purchase the whole production of your mills for twelve months."[34]

Historical Review, Vol. 3.1, 1976, pp. 120–21, 146. See also Ajit Roy, *Indian Monopoly Capital*, Calcutta, 1953.

[30] For a critique, see Bipan Chandra, "A Strategy in Crisis—The CPI Debate 1955–56", *SIH*, Vols 3.1–3.2, 1981, reprinted in Bipan Chandra, ed., *The Indian Left: Critical Appraisals*, New Delhi, 1983.

[31] See, for example, Prabhat Patnaik, "Imperialism and the Growth of Indian Capitalism", in Robin Blackburn, ed., *Explosion in a Subcontinent*, Harmondsworth, 1975, pp. 77–78.

[32] See Chapters 10 and 11 in this volume; and Mukherjee and Mukherjee, "Imperialism and Growth of Indian Capitalism".

[33] See Chapters 6 to 9 in this volume. Professor Sarkar himself quotes an instance where the Indian Chamber of Commerce, Calcutta, a member of FICCI, cold-shouldered the proposals put to it by the Marwari Association to rehabilitate the import trade. Sarkar, "Logic of Gandhian Nationalism", p. 120.

[34] G.D. Birla to Ambalal Sarabhai, 30 April 1930, with copies to Purshotamdas and Kasturbhai Lalbhai, *PT Papers*, fl. 100/101.

In any case, the tendency to link trading interests, as opposed to industrial interests, with elements of compradorism[35] flies in the face of the fact that in India the trading groups participated in the anti-imperialist agitations in a much more militant and active manner than the industrialists.[36] Second, this approach not only misses the existence of considerable overlap between trading and industrial interests but also adopts a completely static view, missing the fact that these two interests were, in fact, a part of a continuum where the former shifted to the latter over time, especially in our period. Third, this reductionist tendency to mechanically link sections of the class with any one political position totally denies any role to ideology. And the Indian capitalist class had consciously adopted in broad terms the ideology of an "industrial national bourgeoisie".

It may be pertinent here to also deal with another shibboleth that the big bourgeoisie (or as some would have it, its monopoly crust)[37] tended to be pro-imperialist and was more prone to collaborate with foreign capital and faced "no major conflict" with it.[38] My research suggests that it was Indian big business, trying to enter areas like shipping, automobiles, locomotives, chemicals, banking and insurance, which most felt the constraints created by imperialism and faced stiff competition from foreign capital.[39] It is not accidental that in the leadership of FICCI Indian big business was very well represented.

In fact the cause and the role of the very early crystallization of tendencies towards concentration and monopoly among indigenous capital in colonial countries like India has not been fully appreciated in any of the works on this subject. This phenomenon was an aspect of a *backward* and *late* capitalism trying to emerge in a hostile colonial context where great concentration of resources with control over diverse areas with considerable

[35] See Sarkar, "Logic of Gandhian Nationalism", p. 120; and Markovits, "Indian Business and Nationalist Politics", pp. 47–50.

[36] See for example, Gordon, *Business and Politics;* and S. Bhattacharya, "Cotton Mills and Spinning Wheels: Swadeshi and the Indian Capitalist Class, 1920–22", *EPW*, Vol. 11.47, 1976, pp. 1828–34.

[37] Levkovsky, *Capitalism in India*, p. 323.

[38] See, for example, Bagchi, "Foreign Capital", p. 61; and Roy, *Indian Monopoly Capital*, pp. 89ff.

[39] See Chapters 9 and 10 in this volume. Nicos Poulantzas clearly sees the absence of any necessary link between the area of activity or the size of capital and its anti-imperialist or comprador character. Basing himself mainly on the Latin American experience, he argues:

> The distinction between national and comprador bourgeoisie [does not] coincide, as is often believed, with that between industrial capital and commercial capital.... What is even more important, the distinction between comprador and national bourgeoisie does not coincide with that between monopoly capital [big capital] and non-monopoly capital [medium capital]; there are big monopolies that function as national bourgeoisies, as well as sectors of medium capital completely subordinate to foreign capital.

Classes in Contemporary Capitalism, pp. 70–71.

vertical and horizontal integration was perhaps the only way of effectively counteracting the "collective monopoly" of alien interests.

In a backward economy, the limited size of the market (for products like automobiles, aircrafts, and ships) often made it necessary for a manufacturer to have a virtual monopoly of the entire market in order to enter production profitably.[40] Further, in a backward economy, a business house trying to enter a new sophisticated area would have to *itself* manufacture almost the entire range of the needed ancilliary products. For example, in the late 1940s, the pioneer in textile machinery manufacture in India needed to produce most of the 17,944 parts required in-house.[41] Moreover, the business house often had to even provide the basic infrastructure like electricity, roads, and railway connections before commencing production. This could naturally be done only by a big business house with large financial resources and diverse interests.

One important aspect of late capitalism is that developments in such societies do not go through the same stages as they did in the early capitalist countries. Certain intermediate stages of capitalist development are skipped (or compressed in a hothouse manner) in the case of the former. To begin production in a modern sophisticated area and be competitive, a late entrant (particularly under conditions of virtual free trade and absence of any protection) would need to achieve almost the same high degree of capital intensity and large scale of operations as had been reached in the already advanced capitalist countries. It is no longer possible to start with a small enterprise (repeating the experience of early British industrialization where, for example, a yeoman farmer could sell his land and start a textile factory) and gradually build up the scale. "Borrowing" capitalism for a late entrant, like India, was even more difficult than it was for countries which did so around the mid-nineteenth century when the gap in technology, scale and capital intensity between the industrialized and the non-industrialized countries had not widened to such an extent. An Indian entrepreneur entering a new modern industry would need to have a fairly large financial and industrial base which when compared to the rest of the Indian economy appeared very large indeed.[42]

While backwardness and late entry created an inherent tendency favouring large capital or even a monopolistic situation, the specificity of the

[40] In the case of automobiles, for example, the Indian capitalists noted that there was "no scope for two factories in India". It was argued that "to set up internal competition would be suicidal". Negotiations were held in 1942 to see if the various business houses interested in automobiles could combine. See Purshotamdas to G.D. Birla, 9 January 1942, *PT Papers*, fl. 239, pt. 2; Manilal Nanavati to B.M. Birla, 10 January 1942 and B.M. Birla to Nanavati, 14 January 1942, *WH Papers*, fl. 68.

[41] See Ray, *Industrialisation in India*, p. 194.

[42] Cf. Alice H. Amsden, "Third World Industrialisation: 'Global Fordism' or a New Model", *New Left Review*, 182, July–August 1990, pp. 16–17. Amsden, for example, sees the link between late industrialization and the emergence of *Zaibatsu* type "diversified business groups" in countries like South Korea, Taiwan, Philippines, India, Thailand, Brazil and Argentina.

colonial situation pushed this tendency further. For example, in colonial India British business interests as a whole had acquired a vice-like grip over the economy (particularly in the eastern region) by establishing control over diverse areas such as industry, finance, trade, banking and even labour recruitment. By exercising this "collective monopoly" over diverse areas the British interests were generally able to deny entry to Indian entrepreneurs into any of these areas.[43] The Indian business houses which had any chance of a breakthrough were the extremely large ones with considerable staying power and diverse interests of their own. It is not accidental that the Indian houses, which managed to wrench a foothold in sectors where European interests were already entrenched, were generally large business conglomerates like the Birlas, Tatas, Dalmia-Jains and the Walchand group.[44] Perhaps another reason why Indian houses diversified into so many areas was to spread their risks, given the insecurity caused by the insufficiency of demand due to the underdeveloped character of the Indian economy and by the lack of any assurance of consistent support by the colonial state to any one area of industrial activity.

Concentration of economic power or monopoly played quite different roles in independent advanced capitalist countries and backward colonial countries. Even within a colonial country it could play divergent roles. For example, in India, concentration or monopoly in the hands of British business interests became a major instrument for preventing the growth of indigenous capital, whereas in the hands of indigenous interests it served as a vehicle for their growth and sometimes even survival. In other words, indigenous concentration of economic power was often an instrument of struggle against imperialism rather than a sure indicator of collaboration with it. Big could also be beautiful.

(*b*) The Indian capitalist class's "links" with feudal interests have been greatly exaggerated. The role of this link in the class becoming "pro-feudal" and in blunting its anti-imperialism has been assumed and never actually demonstrated. None of the major business houses had "significant semi-feudal land holdings" though "several of them" had "large-scale capitalist farms".[45] The Walchand group, for example, by 1943 operated about 17,000

[43] A.K. Bagchi in his major work *Private Investment in India*, has superbly demonstrated how the British "collective monopoly" thwarted indigenous entrepreneurial attempts.

[44] An example of an Indian business conglomerate (by no means the largest) is the Dalmia-Jain group which by the mid-1940s had controlling interests in chemical plants, paper mills, plywood factories, spare parts factories, railway companies, sugar mills, jute mills, cotton mills, flour mills, airlines, cement factories, collieries, foodstuff companies, cold storages, vegetable ghee factories, soap factories, research laboratories, printing presses and publications, banks, insurance companies, investment companies and so on. Other houses like the Birlas and Tatas had similar wide ranging interests. See Gokhale Institute, *Notes on the Rise of Business Communities*, pp. 47–52.

[45] Bipan Chandra, "Indian Capitalist Class and Imperialism before 1947", in Chandra, *Nationalism and Colonialism in India*, pp. 146 and 169. The fact (as Sarkar, "Logic of Gandhian Nationalism", points out) that the Indian Year Book of 1939–40 describes G.D. Birla as

acres of land in Walchandnagar (Maharashtra) out of which about 3,400 were owned by them and 13,700 acres were taken on long-term lease from the cultivators, most of whom, about 8,000 men, were employed as wage labourers—as farmhands on the sugarcane plantations, food crop lands, vegetable farms, or as workers in the sugar factories, oil factories, etc. In this case, there was leasing in of land on a large scale for capitalist farming, not leasing out of land to tenants to secure rentier income for a "feudal" landlord.[46]

More important, the comprehensive reforms in agriculture suggested by the dominant section of the Indian capitalist class were geared precisely towards the undermining of the existing feudal and semi-feudal tendencies in Indian agriculture. In 1931, in response to the Karachi Congress Resolution on Fundamental Rights, the Ahmedabad millowner, Ambalal Sarabhai, on the one hand, made a plea for the defence of private property and private enterprise and, on the other hand, argued that the "landlord class, which...lives on the labour of cultivators...must be abolished" through "nationalisation or compulsory acquisition of the land after paying due compensation...".[47] It is significant that, during the 1931 "agrarian distress in U.P.", FICCI, in a telegram to the Viceroy dated 25 June 1931, took a pro-tenant position, saying that the "remission made by the Government (was) very inadequate" and expressed unhappiness at the "coercive measures adopted by Government to help zamindars".[48] In 1934, G.D. Birla argued for a "change in land laws, liquidation of rural indebtedness,[49] scaling down of rents" and "establishment of agricultural banks".[50]

"millowner, merchant, zamindar", is to my mind not sufficient evidence of the capitalist class's feudal links, just as the East India Company holding the zamindari of the Calcutta villages was no proof of it being part of the Indian "feudal" system.

[46] See Walchand Hirachand's speech, Fourth Session of Indian Society of Agricultural Economics Conference, December 1943, *WH Papers*, fl. 327. Walchand to Indian Council of Agricultural Research, 19 January 1942, Walchand to P.S. Ram, Controller General of Foodstuffs, 5 March 1943, *WH Papers*, fl. 69-A.

[47] Ambalal Sarabhai's Draft Note addressed to the Congress President, October 1931, *WH Papers*, fl. 8(2).

[48] See *WH Papers*, fl. 8(2).

[49] In 1938 a resolution moved in FICCI, on the Agricultural Debt Relief Measures introduced by some provincial governments, had to be withdrawn for lack of unity. Those defending the resolution said that they welcomed the government effort to reach cheap credit to the agriculturists. However, they wanted the government to remember that even the Banking Enquiry Committee Report accepted that 95 per cent of rural credit was supplied by money-lenders and not cooperative banks, and therefore no action should be taken which would wipe out the class of indigenous bankers, rural *sowcars*, etc. In fact, it was argued, given proper facilities they would become the best channel for rural credit. Others, who opposed the resolution, felt that the resolution gave the impression that FICCI was *against* the agriculturist. Also they said rural credit would not disappear with the abolition of the highly exploitative *sowcar* class as they would be replaced by cooperative societies, land mortgage banks, etc. See FICCI, *AR*, 1938, pp. 113ff.

[50] G.D. Birla, FICCI, *AR*, 1934, p. 174.

However, it was in the 1940s that the capitalists' ideas on the nature and scope of land reforms crystallized fully. Some of the major changes in agriculture suggested by the capitalists in this period may be enumerated.[51] They wanted land reforms which would abolish tenancy and rentier landlordism in favour of peasant proprietorship. To achieve this, ryotwari settlement was to be introduced in the zamindari areas. (The fact that even the ryotwari system was not altogether free of the evils associated with the zamindari system was not overlooked.) The state was to gradually "extinguish" the claims of the landlords over their lands by making a lump-sum payment and establish a class of peasant proprietors with whom it would have direct contact. Until this objective was achieved, security of tenure for tenants was to be assured and rents were to be controlled to prevent speculative investment in land. Further, cooperativization was to be introduced on a wide scale: in the spheres of marketing to circumvent the hold of rural merchant usurers and secure remunerative prices to the direct cultivator; of finance, to "liquidate the burden of agricultural indebtedness"; and of production, using compulsion if necessary, to meet the problem of small uneconomic holdings. In 1945, J.C. Setalvad, the FICCI President, went to the extent of suggesting that the government should experiment with not only cooperative but even *collective farming* on the Russian model, for which Soviet experts could be called in.[52] Also, minimum agricultural wages were to be fixed and agricultural income tax was to be introduced on a graduated scale, and, if possible, with an exemption limit. Last, productivity was to be increased by commencing a comprehensive programme of irrigation, fertilizers and modern agricultural research, the results of which were to be popularized by introducing "model farms" on the scale of one such farm for every 10 villages.

[51] I am summarizing below the view put forward by a wide cross-section of the Indian capitalist class in what was popularly known as the Bombay Plan (the signatories to which were Purshotamdas Thakurdas, J.R.D. Tata, G.D. Birla, Ardeshir Dalal, Sri Ram, Kasturbhai Lalbhai, A.D. Shroff and John Mathai), and in FICCI. See Purshotamdas Thakurdas, et al., *A Plan for Economic Development for India* (*Bombay Plan*), pts I and II, Harmondsworth, 1945, pp. 36–40 and 73–83. See also, FICCI, *AR*, 1943, p. 61; FICCI, *AR*, 1945, pp. 7–8; and FICCI President, G. Lal, in FICCI, *AR*, 1947, pp. 8–9. The views of the capitalists in the rest of the paragraph are taken from the above sources except where otherwise indicated.

[52] FICCI, *AR*, 1945, pp. 7–8. However, this was by no means the general view among the capitalists. For example, Purshotamdas and John Mathai were agreed that the Bombay Plan envisaged cooperative and not collective farming as in the Soviet Union. This meant the peasant retained ownership of his land and distribution of income was proportionate to land holding and not to amount of work put in. The only similarity with Russia envisaged by the Bombay Plan was said to be the element of *compulsion* to get the peasants into cooperatives. Purshotamdas to Mathai, 16 July 1945 and 19 July 1945 and Mathai to Purshotamdas, 19 July 1945, *PT Papers*, fl. 341. The capitalists were agreeable to experiments with collectivization only in cultivable wastelands and lands acquired by the state. See Chapter 11 in this volume.

Clearly, Indian capitalists were proposing a programme of agrarian reforms which would free Indian agriculture of its semi-feudal constraints and usher in modern capitalist and peasant farming. That they did not support "radical agrarian programmes" in the sense of outright expropriation of landlords without compensation, or that they sought agrarian reform which was oriented not in favour of the landless labourers and poor peasants but of rich and middle peasants and improving capitalist landlords, was not a result of their "'feudal' connections"[53] but of their being a bourgeois propertied class. The experience of India since 1947 and of various other countries like Germany, Japan and England suggests that this was a feasible model of agrarian reform from above which could overthrow feudalism in agriculture.

Much has also been made of the big landlords and "feudal" princes[54] investing liberally in large business enterprises set up by Indian capitalists.[55] To my mind, this phenomenon is not to be seen as Indian capitalists having "feudal links", forcing them to compromise with feudalism, but as reflecting the quite common phenomenon in the transitional phases to industrial capitalism where traditional pre-capitalist accumulations (both from landlordism and rural trading-usury) are sought to be utilized in the new emerging system.[56] The crucial question is one of determining the *direction* in which the society and economy was moving. The continuing existence of elements of the old order does not necessarily indicate a compromise or capitulation to it.

What bears emphasis, however, is the fact that whatever be the "links" of the Indian capitalist class with "feudal" interests, if any, these links did not lead to its adopting a pro-feudal and therefore pro-imperialist stance. While as we have seen, their economic programme undermined feudalism, politically the Indian capitalists throughout kept their distance from the pro-imperialist landlords and princes, whether it be in Legislative Assemblies or at the Round Table Conferences or in any other forum. For example, FICCI condemned the "serious political disabilities embodied in the (1935) Act" such as "the perpetual *veto* of the princes on any constitutional advance"—a provision which they found "objectionable".[57]

(*c*) In India, the "fear of organized labour" or to use the phrase of the 1920s, "the menace of the Red Spectre", never became, for a variety of

[53] See Sarkar, "Logic of Gandhian Nationalism", p. 121.

[54] One cannot perhaps lump all Indian princes, especially the progressive ones among them who were committed to fairly wide-ranging modernization along capitalist lines as feudal; they were more like the Meiji oligarchies and Bismarckian Junkers. It is significant that in the inter-war period, a substantial part of industrial investment in India occurred in the princely states. Bagchi, *Private Investment*, pp. 210, 214–15.

[55] See, for example, Roy, *Indian Monopoly Capital*, Chapter VIII.

[56] Marx's notion of the second path, of capitalism from above, is relevant here.

[57] FICCI to Viceroy, 30 July 1938, *Economic and Overseas Department*, L/E/9/1150, India Office Records (henceforth IOR), London.

reasons, strong enough to push the Indian bourgeoisie into the lap of imperialism.[58] Whenever the Left threat was seen to be becoming important, the extremely self-conscious Indian capitalists responded not by seeking help from imperialism but by attempting inter alia to strengthen the Right wing of the nationalist stream. In fact the Indian capitalists evolved a subtle, many-sided strategy to contain the Left, no part of which involved a sell out to imperialism. For example, when in 1929, to meet the high pitch of communist activity among the working class trade unions, certain capitalists attempted to form a class party where European and Indian capitalists would combine, the leaders of the Indian capitalist class firmly opposed this move. As G.D. Birla put it, "The salvation of the capitalists does not lie in joining hands with reactionary elements" (pro-imperialist European interests in India) but in "cooperat[ing] with those who through constitutional means want to change the government for a national one".[59] Purshotamdas was to reiterate the clearly perceived primacy of the national over the social contradiction: "We are Indians first and merchants and industrialists afterwards...."[60]

The Indian capitalists' position in 1928–29 on the Public Safety Bill, which sought to give the colonial government extraordinary powers to contain communism in India, is significant in this context. The fear of the Left did not persuade the capitalists to support this measure (to contain the Left) which would simultaneously strengthen the hands of the colonial regime vis-à-vis the Indian nationalists. For example, Purshotamdas accepted that the capitalist class was "most interested in keeping communism and Bolshevism out of India" but refused to be "stampeded into" supporting the Bill which would extend the powers of the colonial government. He feared that these powers would be used by the colonial government to suppress Indian nationalists on the grounds that they were fomenting industrial, agrarian or other disputes "with the direct object of subverting the authority of law or organised government in British India".[61]

[58] The correct understanding that the bourgeoisie would have joined hands with imperialism *if* the threat of the *Left actually* became too great did not help the Left to correctly characterize the bourgeoisie and evolve a strategy on that basis, when in reality the Left threat did not lead the bourgeoisie to make common cause with imperialism. In fact, the reverse was the case in India. The bourgeoisie was able to perceive that any weakening of its nationalism would give an opening to the Left and, therefore, did not provide such an opportunity. Apart from its economic position, its class-politics prompted it to support and not betray the national movement. This enabled the bourgeois perspective to hegemonize the national movement (or, at least avoid hegemonization by the Left perspective) while the Left was waiting in the wings for the moment of betrayal. See Bipan Chandra, "Indian Capitalist Class and Imperialism before 1947" and "Modern India and Imperialism", in Chandra, *Nationalism and Colonialism*.

[59] G.D. Birla to Purshotamdas, 30 July 1929, *PT Papers*, fl. 42, pt. V.

[60] Purshotamdas to N.M. Mazumdar, 7 June 1929, *PT Papers*, fl. 42, pt. II.

[61] Purshotamdas, extracts from *LAD*, 12 September 1928 in *Home (Political) Department*, fl. 18/VII/1928, National Archives of India (henceforth NAI), New Delhi; Purshotamdas in

The Viceroy had anticipated that the capitalists' refusal to support the Bill would be critical to the Bill falling through in the Legislative Assembly.[62]

Also, the capitalists were not to attempt to "kill Bolshevism and communism with such frail weapons" as frontally attacking the Left with class organizations of the capitalists, which would carry no weight with "the masses" or even with the "middle classes". As G.D. Birla clearly put it, "I have not the least doubt in my mind that a purely capitalist organisation is the last body to put up an effective fight against Communism".[63] Birla was to outline a "superior" method, in 1936, while reprimanding a section of his fellow capitalists who, alarmed by Jawaharlal Nehru's Leftism, raised an open banner of revolt against him and his socialist ideas in a public statement called the "Bombay Manifesto". He said: "It looks very crude for a man with property to say that he is...opposed to expropriation in the wider interest of the country. Are you or myself a fit person to talk? Let those who have given up property, say what you want to say."[64] The correct strategy, therefore, was to "strengthen the hands" of the "Right wing" nationalists such as "Vallabhbhai and Bhulabhai who are fighting against socialism".[65] The government was also urged to give concessions to the Right wing nationalists; otherwise it would be "helping the socialists indirectly".[66]

Further, the capitalists were to encourage extensive ideological work through their "political and ideological representatives" to fight socialism.[67] On the other hand, it was argued that the "root cause" or "*raison d'etre* of communism" was to be studied and steps taken to "alleviate poverty and discontent" and adopt a "sympathetic attitude" towards labour.[68] It is with this perspective that the "Post-War Economic Development

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FICCI, *AR*, 1928; and Irwin, Viceroy to Sykes, Governor, Bombay, 2 January 1929, *Sykes Collection*, Mss. Eur. F-150/1, IOR, London. See also, G.D. Birla in FICCI, *Proceedings of the Executive Committee* (henceforth *Proc. of EC*), 1929, *WH Papers*, fl. 6a.

[62] Irwin, Viceroy to Birkinhead, Secretary of State, 13 September 1928, *Birkinhead Papers*, Mss. Eur. D703/6, IOR, London.

[63] G.D. Birla to Purshotamdas, 30 July 1929, *PT Papers*, fl. 42, pt. V.

[64] G.D. Birla to Walchand, 26 May 1936, *PT Papers*, fl. 177. Similarly, *Indian Finance*, 11 March 1944, warned against the class speaking "with too obvious a concern for its own class interest... condemn[ing] itself in the eyes of the public". See also, Bipan Chandra, "Jawaharlal Nehru and the Indian Capitalist Class, 1936", in Chandra, *Nationalism and Colonialism;* and Chapter 11 in this volume.

[65] G.D. Birla to Walchand, 26 May 1936, *PT Papers*, fl. 177. "The Right-wing Congressmen are...fighting against two forces—the Government and the Socialists". G.D. Birla, *In the Shadow of the Mahatma: A Personal Memoir*, Calcutta, 1953, p. 193.

[66] Birla, *In the Shadow of the Mahatma*, p. 194.

[67] See Chapter 11; fn. 156 in this chapter; and pp. 102–3 in this volume.

[68] G.D. Birla to Purshotamdas, 30 July 1929, *PT Papers*, fl. 42, pt. V. Similarly, Birla wrote to Walchand: "Our duty does not end in simply opposing socialism. Businessmen have to do something positive to ameliorate the condition of the masses." 26 May 1936, *PT Papers*, fl. 177.

Committee" set up by the capitalists in 1942, which eventually drafted the Bombay Plan, was to function. The committee was to recognize "the inevitability of a change in the direction of a socialist economy" and be "prepared to make such adjustments as may meet all reasonable demands before the socialist movement assume[d] the form of a full fledged revolution". The attempt was to incorporate "whatever is sound and feasible in the socialist movement" and see "how far socialist demands could be accommodated without capitalism surrendering any of its essential features". The eventual plan (Bombay Plan) was to therefore seriously take up the questions of equitable distribution, partial nationalization, etc., with this objective clearly in mind.[69] "A consistent... programme of reforms" was the "most effective remedy against violent social upheavals".[70]

The Indian capitalist class's response to the threat from the Left was thus not one of a panic-stricken embracing of imperialism but rather a deliberate effort to ensure the subordination of the Left in a new national order. While remaining on the side of nationalism, it evolved a subtle strategy of combating the Left—in certain respects pre-empting the successful attempts worldwide by post-war reformist welfare capitalist states to save capitalism as a system. In other words, while the Indian capitalist class's strategy was definitely anti-socialist and bourgeois, it was not pro-imperialist.[71]

However, the bourgeoisie's understandable inclination to remain within a bourgeois framework is often misinterpreted as its acceptance of or attempt to grow within the imperial framework. For example, Professor Bagchi sees the capitalists' arguing for "...a capitalist order of society, international collaboration between capitalists of all countries, avoidance of drastic social change and respect for the fundamental rights of property", as proof of their "remain[ing] imprisoned by some of the basic presuppositions of the British imperial system...",[72] while all that it actually demonstrates is their desire to maintain the capitalist system. This confusion arises because of the basic assumption made since the early 1920s and accepted in some left circles even today, that colonial countries could not break out of the hold of imperialism so long as they remained within the parameters of capitalism; that only shooting out of the capitalist orbit into socialism could achieve this task.[73] Given this understanding, being

[69] John Mathai to Purshotamdas, 8 December 1942 and enclosure, *PT Papers*, fl. 291, pt. 1.

[70] G.L. Mehta, FICCI President, FICCI, *AR*, 1943, p. 31.

[71] The limited dependence of the capitalist class on the colonial administration for maintaining law and order and social peace was, "however, the dependence not of a comprador class but of [an independent] capitalist class in an era of mass movements and socialist revolutions". Chandra, "Indian Capitalist Class", p. 155.

[72] Bagchi, *Private Investment*, p. 428.

[73] M.N. Roy, for example, argued in 1927, that the "overthrow of imperialist domination cannot be a bourgeois revolution". See Mukherjee, "Workers' and Peasants". See also, Bagchi, *Private Investment*, pp. 426–28 for a similar perspective.

bourgeois by definition meant being pro-imperialist. Consequently, quite often a political strategy of anti-imperialism which was at best bourgeois was seen as being pro-imperialist, or, at times, the non-pursuance of a revolutionary *socialist strategy* against imperialism was seen as compromising with imperialism. In reality, however, the Indian bourgeoisie, rather than attempting to remain and grow within the imperialist framework, built up a multi-pronged strategy precisely to undermine it, and the Indian national movement did succeed in overthrowing imperialism (though remaining, despite contending forces, under bourgeois ideological hegemony), and in establishing an *essentially independent capitalist society*, however weak and prone to dangers of potential neocolonialism.[74]

III. The Indian Capitalist Class and the National Movement

It is important to recognize at the outset that the Indian national movement was not led or created by the Indian capitalist class nor was it in any sense crucially dependent on its support.[75] The capitalist class, however, constantly reacted to the *existing autonomous national movement* and evolved a strategy towards it and towards imperialism. I will attempt to identify certain broad features of this strategy.

The Indian capitalist class's strategy vis-à-vis imperialism was certainly one which remained within the bourgeois framework but was not at any point anti-national, i.e., seeking to remain within the imperialist framework. The capitalist class's seeking and supporting social, economic and political concessions or reforms, wrested from or offered by the colonial government, or its preference for legal and constitutional opposition as against revolutionary, extra-legal opposition cannot be understood per se as its surrendering to imperialism. If it supported the colonial government on certain specific issues, this was in the nature of a *tactical support to reforms within the system while maintaining a strategic opposition to the system as a whole*. Such a perspective was by no means identified with only the capitalist class in colonial society. Even the working class or the peasantry could and did support and demand from the colonial government reform measures such as the reduction of working hours or legislation to improve

[74] Perry Anderson (*Considerations on Western Marxism*, London, 1976, p. 118) sees this point and argues that the establishment of a bourgeois democracy in India in 1947 and its more or less successful practice over the last 30 years demonstrates the falsity of Trotsky's notion, declared after 1924, that henceforth there could be no successful bourgeois democratic revolution in any of the colonial countries.

[75] See Chandra, "Indian Capitalist Class", pp. 144–45. I will take up the question of the autonomy of the Congress-led anti-imperialist movement in some detail in the following sections.

the position of tenants, without necessarily identifying their long-term interests with the colonial government or the colonial system.

While analyzing what, for lack of a more precise term, has been called "reformism", one must distinguish between two basically different kinds of "reformist" strategy. First, one which seeks reforms to serve the long-term interest of perpetuating the existing system, pre-empting more fundamental changes, and, second, one which while seeking reforms within the system maintains the perspective of fundamentally transforming or overthrowing the existing structure, seeing many of the reforms as "steps or means" towards achieving that goal.[76] In case of colonial India only the liberal imperialists argued for the former strategy vis-à-vis imperialism. No segment of the nationalist stream including the most conservative segments, such as the Liberals, who stood further right of the capitalists in their anti-imperialism, fall into this category. As for the Indian capitalist class, it was "reformist" (vis-à-vis imperialism) in the latter sense. The Indian capitalist class was "reformist" with the former perspective when it approached the social question (i.e., the question of maintenance of capitalism itself)[77] and was "reformist" with the latter perspective when it approached the national question (i.e., the question of the continuation of imperialism)—though its particular strategy of overthrowing imperialism was to be one which *simultaneously* ensured the maintenance of capitalism.

For example, the Indian capitalists' preference for legal and constitutional opposition was partially due to their attempt to oppose imperialism while simultaneously maintaining the capitalist system. There were several factors which explained their insistence on not abandoning the constitutional front and their general tendency to put their weight behind constitutional forms of struggle as opposed to mass civil disobedience. First, there was the fear that mass civil disobedience would unleash forces which could turn the movement revolutionary in a social sense, and take the movement out of the hands of its present leaders like Gandhi. "Private property" itself could be threatened and the "disregard for authority" created could have "disastrous after effects" even for the "future Government of Swaraj".[78] Whenever the national movement was seen to be getting too dangerous in this sense, the capitalists did their best to bring the movement back to a phase of constitutional opposition. In any case, an all-out hostility to the government of the day, or support to militant politics, which

[76] See, Ralph Miliband, *Marxism and Politics*, Oxford, 1977, Chapter 6, for a very interesting analysis of "Reformism" within the Marxist tradition and its relationship with "Revolution". He makes the above distinction between the two trends of reformism, though in the context of capitalism and its transformation.

[77] See Section II; and Chapter 11 in this volume.

[78] See Lalji Naranji to Purshotamdas, 28 March 1930 and Sri Ram to Purshotamdas, 31 August 1942, *PT Papers*, fl. 91, pt. II and fl. 239, pt. IV, respectively. Also see, N.R. Sarkar, FICCI President, in FICCI, *AR*, 1934, pp. 68–69.

prevented continuation of ordinary, day-to-day business could not be supported by the capitalist class for a *prolonged period* of time as it would threaten the existence of the class itself.[79]

Second, the capitalists wanted to avoid the immediate damage that could result from the "suicidal policy" of the "Congress and the commercial community" boycotting all constitutional avenues such as councils, legislatures and the negotiating table, such as the Round Table Conference. It was felt that such a policy enabled the government, with the help of "black-legs" and elements who did not represent the nation, to easily pass measures which could severely affect the Indian economy and the capitalist class, without having to face an effective opposition—in Purshotamdas's words: "Not a dog barks in the Central Legislature as an effective protest."[80]

However, it may be emphasized here that the Indian capitalists' support to constitutional participation, whether in assemblies, conferences or even by joining the Viceroy's Executive Council, is not simply to be understood as their getting coopted into the imperial system or surrendering to it. They saw constitutional participation as a method, though not the only method, of maintaining an effective opposition.

> We shall have no hesitation in adopting any method that is likely to further our ends and strengthen our cause.... If the leaders think that the Councils (Legislatures) can give us strength to *achieve our goal* they must capture them and work them. If they believe the councils are impediments in the path of our political progress they must capture them and break them. In any circumstance we must prevent others from using them to pass bad laws.[81]

There was no question of the capitalists *unconditionally* accepting all reforms and agreeing to enter the legislatures. Severe criticism was made

[79] See Chandra, "Indian Capitalist Class".

[80] See Purshotamdas to N.R. Sarkar, 17 June 1933, and N.R. Sarkar's Presidential Address at the First Quarterly Meeting of the Bengal National Chamber of Commerce, 1933, *PT Papers*, fl. 141; Purshotamdas's Diary, 1 August 1933, p. 142, *PT Papers*, fl. 140; and N.R. Sarkar in FICCI, *AR*, 1934, p. 74. Some of the measures that were mentioned, which the government passed without effective opposition were the Ottawa Agreement, export of gold, 50 per cent preference to Lancashire, etc. The capitalists were particularly perturbed at the wrong image projected in the world by the passage of such measures without protest in the assemblies, suggesting that they had popular support behind them. They also saw the necessity of participation in the constitutional discussions at the Round Table Conference because of the tremendous importance to India of certain issues, like commercial and financial safeguards for non-Indian interests, that were to be decided there. Also see Chapters 4, 7, 8 and 10 in this volume.

[81] N.R. Sarkar, FICCI President, FICCI, *AR*, 1934, p. 74, emphasis mine. Purshotamdas's defence of why he accepted the invitation to the third Round Table Conference, despite opposition even from his own constituency, was: "to do one's duty by one's motherland", and not allow the Indian point of view to go by default. *Bombay Chronicle*, 25 October 1932.

of those who, out of their "zeal for cooperation under all or any circumstances", argued for making an "unequivocal declaration of cooperation" on the question of council entry.[82] The capitalists were to "participate on our own terms"[83] with "no compromise on fundamental[s]",[84] firmly rejecting offers of cooperation which fell below their own and the minimum national demands. For example, while the capitalists in 1931 welcomed the Gandhi–Irwin Pact and the resumption of constitutional discussions, they did not in any way scale down their long-term economic and political demands, and continued pressure on issues such as transfer of total financial control to ministers of a popular Central Legislature.[85] Soon after that, FICCI rejected the "Report of the Joint Parliamentary Committee on Constitutional Reforms for India", pointing out in detail how the Report fell far short of national economic and political demands, and calling it "even more reactionary than the proposals contained in the white paper".[86] Eventually, in 1935, FICCI, in a unanimous resolution, "most emphatically disapprove[d] of the Government of India Bill based on the Report of the Joint Parliamentary Committee" as, inter alia, it did not "in any way conform to or approach the promises and pledges held out to India from time to time".[87]

Further, however keen the capitalists may have been to keep the constitutional avenues open, they clearly recognized the futility of entering councils, etc., "unless the nation also decide[d] to enter them".[88] They also refused to negotiate with the British government, and certainly to make any final commitments, on constitutional as well as economic issues, behind the back of the Indian National Congress, i.e., without its participation or at least approval.

For example, G.D. Birla admonished Purshotamdas for joining the Liberals in signing the Bombay Manifesto, accepting, "unconditionally", Viceroy Irwin's declaration of October 1929, and particularly for doing so without waiting for the Congress response which was to "wisely" put certain restrictions.[89] Ambalal Sarabhai was also very critical and he reminded Purshotamdas that India should not present a divided front at the Round Table Conference (RTC) and that only Congress could actually

[82] N.R. Sarkar, FICCI, *AR*, 1934, p. 72. See also, G.D. Birla to Purshotamdas, 3 November 1929, *PT Papers*, fl. 91, pt. 1.

[83] G.D. Birla to Purshotamdas, 16 February 1932, *PT Papers*, fl. 104. The reference here is to participation in the consultative committee of the Round Table Conference.

[84] Purshotamdas to N.R. Sarkar, 1 August 1942, *PT Papers*, fl. 239, pt. II; and N.R. Sarkar, in *Free Press Journal*, 24 July 1941.

[85] FICCI, *AR*, 1931, pp. 3, 8 and 97.

[86] FICCI statement forwarded to members of the House of Commons, House of Lords and the Central Legislature, FICCI, *Proc. of EC*, 1934, pp. 33–42.

[87] FICCI, *AR*, 1935, pp. 20–21.

[88] N.R. Sarkar, FICCI, *AR*, 1934, pp. 72–73.

[89] G.D. Birla to Purshotamdas, 3 November 1929, *PT Papers*, fl. 91, pt. 1.

deliver the goods: "Minus the support of the Congress the Government will not listen to you."[90] Though Purshotamdas personally disagreed with the Congress stance on Irwin's declaration, the Lahore Congress resolution and the actual launching of civil disobedience in April 1930, and favoured participation in the Round Table Conference and general cooperation with the Viceroy at that point, he nevertheless resigned from the Legislative Assembly in May 1930 under pressure of public opinion. Rather than agreeing to censure the Congress publicly, he urged the government to concede Gandhi's demands as only then would it be possible to attend the Round Table Conference.[91]

In May 1930 the Executive Committee of FICCI passed a resolution (in sharp contrast to the Liberals who had agreed to participate in the Round Table Conference) stating that "no conference...convened for the purpose of discussing the problem of Indian constitutional advance can come to a solution...unless such a conference is attended by Mahatma Gandhi, as a free man, or has at least his approval". On this ground the Committee recommended to the FICCI member bodies "not to nominate any representatives...to the Round Table Conference" and urged individual members not to attend the Conference even if "invited in their individual and private capacity".[92] Consequently, the capitalists boycotted the first Round Table Conference and attended the second along with Gandhi. Even when Purshotamdas attended the third Round Table Conference in his *individual capacity* he made it quite clear that the "Conference cannot finally settle the constitutional problems...(in) Mahatma Gandhi's absence".[93] Similarly, when the Indian capitalists negotiated with the British on *economic issues* such as during the Indo-British Trade Negotiation between 1937 to 1939, they finally rejected the British proposals *because the Congress did so*, even though many of them saw them as advantageous to India. More or less the same logic was followed by the dominant section of the Indian capitalist class with regard to the Modi–Lees Pact (Bombay–Lancashire Pact).[94]

Finally, it may be reiterated that for the Indian capitalist class constitutionalism was not an end in itself, nor did it subscribe to what has often been called "gradualism".[95] Had it done so, it would have joined hands

[90] Ambalal to Purshotamdas, 5 November 1929, *PT Papers*, fl. 91, pt. 1. Purshotamdas, however, clarified that his signature to the Bombay Manifesto was put without his consent and that he was not in favour of "issuing any manifesto before the [Congress] leaders at Delhi had made up their minds." Purshotamdas to G.D. Birla, 5 November 1929, *PT Papers*, fl. 91, pt. 1.

[91] Purshotamdas to Irwin, 28 April, 12 May and 31 May 1930, Purshotamdas to Schuster, 24 and 30 May 1930, *PT Papers*, fl. 91, pt. 1; and *Indian Daily Mail*, 22 May 1930.

[92] FICCI, *Proc. of EC*, 1930–31, p. 5. Also see G.D. Birla to Sir Samuel Hoare, 2 November 1932 in Birla, *Shadow of the Mahatma*, p. 72; and G.D. Birla to Purshotamdas, 13 May 1932, *PT Papers*, fl. 107, pt. II.

[93] *Bombay Chronicle*, 25 October 1932. See also, fn. 81 above.

[94] See Chapters 7 and 8 in this volume.

[95] See fn. 26 and preceding matter.

with the Liberals rather than support the Congress, which repeatedly went in for non-constitutional struggle, including mass civil disobedience. The capitalists did not rule out other forms of struggle and saw constitutional participation as only one step towards the goal, to achieve which, other steps could be necessary. For example, G.D. Birla, who had worked hard for a compromise leading to the Congress accepting office in 1937, warned Lord Halifax and Lord Lothian that the "Congress was not coming in just to work the constitution, but to advance towards their goal", and if the "Governors and the Services" did not play "the game", or "in case there was no [constitutional] advance after two or three years, then India would be compelled to take direct action", by which he meant "non-violent mass civil disobedience".[96]

The Indian capitalists' attitude towards civil disobedience was very complex. While on the one hand they were afraid of protracted mass civil disobedience, on the other hand they clearly saw its utility, even its necessity, in getting crucial concessions for the nation. In January 1931, commenting on the ongoing civil disobedience movement, G.D. Birla remarked: "There could be no doubt that what we are being offered at present is entirely due to Gandhiji... if we are to achieve what we desire, *the present movement should not be allowed to slacken.*"[97] Similarly, in October 1930, Purshotamdas did not rejoice at what he saw as the gradual decline in public support to the movement "everywhere except in Bombay city", but feared that with "the Congress... setback... the country will suffer heavily".[98]

When, after the mass movement had gone on for some time, the capitalists sought peace or a compromise, this was to be only after extracting concessions, using the movement to bargain. As G.D. Birla put it in January 1931, the capitalists in their "anxiety for peace" were not to surrender or "reduce [their] demands". He argued: "We should...have two objects in view; one is that we should jump in at the most opportune time to try for a conciliation and the other is that we should not do anything which might weaken the hands of those through whose efforts we have arrived at this stage."[99] Also, when the capitalists attempted to mediate between the government and the Congress to secure peace and withdrawal of the movement, they did not do so as agents or "traditional allies of government,

[96] G.D. Birla to Mahadev Desai, 8 July and 22 July 1937, in Birla, *Shadow of the Mahatma*, pp. 219 and 224–26. See also Chandra, "Indian Capitalist Class", p. 161. Interestingly, in 1932 some capitalists argued with the Bengal Governor that picketing was legal and moral. N.R. Sarkar and S.K. Bhattar to Jackson, Governor of Bengal, 15 January 1932, *PT Papers*, fl. 107, pt. III.

[97] G.D. Birla to Purshotamdas, 16 January 1931, *PT Papers*, fl. 42, pt. VII, emphasis mine.

[98] Purshotamdas to D.P. Khaitan, 8 October 1930, *PT Papers*, fl. 99, pt. 1.

[99] G.D. Birla to Purshotamdas, 16 January 1931, *PT Papers*, fl. 42, pt. VII.

rally[ing] to its side",[100] but on the contrary placed the condition before the government that they must make certain definite concessions to the national movement, without which civil disobedience would be continued or relaunched.[101]

Further, however opposed the capitalists may have been at some point of time to mass civil disobedience, they never supported the colonial government in repressing it. In fact the capitalists throughout pressurized the government to stop repression, remove the ban on the Congress and the press, release political prisoners, and stop arbitrary rule with ordinances as a first step to any settlement, even when the Congress was at the height of its non-constitutional mass phase.[102] In other words, the fear of a prolonged mass movement and radicalization of the Congress did not push the capitalists either to seek imperialist support in repressing it or even to openly condemn or dissociate themselves from the Congress.

The Indian capitalists' attitude had undergone significant changes on these issues over time. During the Swadeshi movement (1905–8), the capitalists remained opposed to the boycott agitation.[103] Even during the Non-cooperation movement of the early 1920s a small section of the capitalists (including Purshotamdas) openly "declared themselves as enemies of the non-cooperation movement".[104] However, during the Civil Disobedience movement in 1930 the capitalists refused to respond to the Viceroy's exhortations to them to publicly repudiate the Congress stand, despite his offer of full guarantee of government protection against any harassment for doing so.[105] By 1940 the capitalists were not willing to entertain "cheap talk" about "the Congress being unreasonable" and argued that given the political stance of the British the Congress was "left with no other alternative than to launch non-cooperation", of the "consequences" of which they

[100] As argued by Gordon, *Business and Politics*, pp. 155–56, 200.

[101] See, for example, Birla's position in January 1931 discussed earlier, his efforts at mediation in England during 1935–37, Birla, *Shadow of the Mahatma*, Chapters XV–XVII; and the position taken by the capitalists during 1940–42, mentioned later. See also Chandra, "Indian Capitalist Class", p. 160; and Gordon, *Business and Politics*, pp. 221, 227 and 229.

[102] See, for example, Indian Merchants' Chamber to Government of India, Home Department, 18 August 1930, *PT Papers*, fl. 91, pt. II; FICCI resolution, FICCI, *Proc. of EC*, 1931–32, p. 3; Walchand Hirachand, President, FICCI, *AR*, 1933, pp. 6–8; FICCI unanimous resolution, *ibid.*, p. 105; resolutions passed by a large number of Chambers of Commerce and Industries, 27 August 1942 and 9–10 March 1943; and Purshotamdas to B.M. Birla, 1 September 1942, *PT Papers*, fl. 239, pts IV & V; FICCI President, G.L. Mehta to Private Secretary to Viceroy, 1942 and his Press Communique, 13 September 1942, FICCI, *Corresp.*, 1942, pp. 290–99.

[103] See Kannangara, "Indian Millowners and Indian Nationalism".

[104] See Bhattacharya, "Cotton Mills and Spinning Wheels".

[105] See Irwin, Viceroy to Purshotamdas, 29 September 1930 and Purshotamdas to Irwin, 28 April 1930, *PT Papers*, fl. 99, pts I & II. The capitalists however continued privately to argue, on several occasions, with Congress leaders on the need for a settlement, etc.

did not take "such a serious view".[106] On 5 August 1942, four days before the launching of the Quit India Movement, Purshotamdas, J.R.D. Tata and G.D. Birla wrote to the Viceroy, arguing that the only solution to the present crisis, the successful execution of the war and the prevention of another civil disobedience movement was "granting political freedom to the country... even during the midst of war".[107] The capitalists now adopted an aggressive tone, no longer defensive about the government charge reiterated by Churchill that "manufacturing and financial interests were behind the Congress". G.L. Mehta, FICCI President, declared in September 1942: "Indian commercial organisations did not feel apologetic about the fact that they were fully in accord with the essentials of the Congress demand for freedom and transfer of power."[108] Significantly, the capitalists adopted this position at a time when the *immediate* payoff of distancing themselves from the Congress and collaborating with the government could be very high. During the war the government was desperately looking for allies and the capitalists could have extracted large concessions and also taken, as they often did, maximum advantage of concessions given, as the war provided enormous economic opportunities.

Also, it is to be noted that while during the Non-cooperation and Civil Disobedience movements active support from among the capitalists came chiefly from merchants, traders, small businessmen, etc.,[109] by 1942 even "big business" provided spirited support to the Quit India movement. There is evidence from all parts of India which shows that big business houses like the Birlas, Tatas, Dalmias, Singhanias, Thapars, Sri Rams, the Walchand group, the Kasturbhai Lalbhai group and the Ahmedabad Millowners as a whole supported the movement not only through large monetary contributions but by providing help and shelter to underground activists and, according to intelligence reports, even by actively encouraging strikes in their own industries (sometimes lasting up to two months) with full wages being assured to the workers. Many eminent capitalists and office bearers and employees of important Indian chambers of commerce were arrested. Among those arrested were: Lalji Mehrotra (President, Karachi Indian Merchants Association), Haridas Lalji (Secretary, Buyers' & Suppliers' Chamber, Karachi), S.R. Dhadda (Secretary, Indian Chamber of Commerce, Calcutta), S.J. Desai and two other Assistant Secretaries of the Indian Chamber of Commerce, Calcutta and the eminent Ahmedabad millowner Vadilal Lallubhai Mehta.[110]

[106] Purshotamdas to G.D. Birla, 9 September 1940 and G.D. Birla to Purshotamdas, 11 September 1940, *PT Papers*, fl. 239, pt. I.

[107] *PT Papers*, fl. 239, pt. 4.

[108] Press Conference, 17 September 1942, FICCI, *Corresp.*, 1942, pp. 290–96.

[109] See Gordon, *Business and Politics*; Bhattacharya, "Cotton Mills and Spinning Wheels"; and Ray, *Industrialisation in India*, Chapter 6.

[110] See, for example, Secret Intelligence Bureau Report, 27 September 1942, Reports of the Governors of Bihar and Central Provinces, 1 February 1943 and 26 February 1943,

However, despite the changing attitude towards mass movements, the capitalists generally remained opposed to mass movements being prolonged and in certain situations to even their being launched. Apart from the fear of political radicalization in a social sense and the threat to the day-to-day existence of the capitalist class, the capitalists enumerated some "practical limitations" to mass movements being prolonged, brilliantly capturing in the process some of the critical objective (as opposed to class) considerations that could arise on this question. It was argued:[111] (*a*) a mass movement "as an extreme programme of direct action imposes severe suffering upon and demands great sacrifices from its adherents", making it untenable to count on prolonged mass support. (*b*) "The stringent measures adopted by the Government... [i.e., repression unleashed by Government] also seriously affected the chances of its continuance as a mass movement" as the capacity of the masses to withstand repression would sooner or later reach a breaking point. (*c*) In an already existing "atmosphere of intense inter-communal clash and sectional difference the continuance (or even launching) of such direct action... may easily become a dangerous method", as there was the risk of popular mass activity degenerating into communal rioting involving incalculable human cost.[112] (*d*) Civil disobedience was not necessarily always and at all times the best method of fighting the government as the mode of struggle must match the nature and tactics of the adversary. "When the government" changed their tactics "the country would also require to change its methods and instruments.... Too great a sanctity should not be attached to one particular method", as "political tactics often necessitate the adoption of several weapons at the same time. The value of a method is sometimes so exaggerated and invested with almost divine sanctity" as to threaten "losing sight of the goal itself". G.D. Birla, in a similar criticism of the tendency of losing sight of the goal for the method, or of deciding the nature of the goal achieved by the method employed, lashed out at those who "believe that

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Intelligence Bureau Circular, Summary of Information received since October 1942, 18 March 1943 and Viceroy to Secretary of State, 3 April 1944, enclosing note by Director of Intelligence Bureau, 28 February 1944, on "Congress and 'Big Business'", *Public and Judicial Department* (henceforth L/P&J), L/P&J/117 C27 MA, IOR, London.

[111] FICCI President, N.R. Sarkar in an extremely mature, 75-page long, presidential speech at the annual session of the Federation in March 1934, outlined the capitalists' position on this question. One may point out here that the presidential speech, unlike other speeches made at the annual meetings, was usually circulated in advance, for comments, among a large number of the committee members, and it generally reflected the overall consensus view of the entire Federation. The quotations in the rest of the paragraph in the text are from various parts of this speech in FICCI, *AR*, 1934, except where otherwise indicated.

[112] The fact that secular mass action was likely to create conditions where the chances of communal politics developing would be reduced, does not mean that the former could be initiated, once communal feeling has already been worked up to a high pitch, to meet the communal challenge, without incurring grave risk.

even the best should not be achieved by constitutional means. They think that even Swaraj achieved through constitutional means is no Swaraj. Revolution [meaning here violent insurrection] to them is more essential than Swaraj itself."[113] This critique was perhaps aimed at the contemporary Communist tendency to characterize the nature or goal of the movement by the criteria of methods of struggle, for example, whether it favoured violence or non-violence. It was precisely this tendency which engendered the current popular view, among sections of the Left, that Indian independence was no real independence because it came (at least in the end) not through a violent insurrectionary overthrow but by what has been loosely called a "negotiated settlement". (*e*) The method of struggle should not be such as to prevent those who share the same objectives from participating in the common struggle. "Our future political methods should be such that every man who loves his country will have an opportunity to make some contribution however small towards its advancement." Referring specifically to the commercial community, it was said: "we the commercial community desire to march with our countrymen. Do not exclude us by taking a route [e.g., prolonged civil disobedience] we cannot follow or prescribing methods we cannot use."

None of the above considerations enumerated by the capitalists, except partially the last one, were born out of bourgeois or any other specific class perspective. Any leader of a multi-class mass civil disobedience movement involving the entire nation would have to take account of each of these considerations before deciding to launch, continue or call off such a movement. The leaders of the Indian national movement, particularly Gandhi, at one point or another expressed their understanding of each of these aspects, though the Left stream often omitted to do so. In fact the Congress, in our period, followed both the strategy of what Bipan Chandra has termed struggle–truce–struggle (S–T–S) (i.e., a combination of phases of non-constitutional struggle or pressure through mass civil disobedience with tactical shifts enabling phases of constitutional opposition, during periods of truce, in an upward spiralling circle),[114] as well as, the strategy of not rejecting all reforms but utilizing them selectively with the perspective of transforming the system—partially because of its deep appreciation, at perhaps a more sophisticated level than that of the capitalist class, of the above mentioned factors. Apart from these factors, an appreciation of the organizational, political and ideological preparedness of the Indian people and particularly of the semi-hegemonic (as distinct from totally authoritarian) nature of the colonial state in India led the Congress to adopt a strategy of creating a counter-hegemony through a

[113] Birla, *Shadow of the Mahatma*, p. 157.

[114] See Bipan Chandra, *Indian National Movement: The Long-Term Dynamics*, New Delhi, 1988, Chapter 3. What is clearly meant by "truce" or "compromise" is not a partial surrender of national demands, but a shift in the terrain of struggle to a constitutional opposition.

multi-faceted, essentially non-violent struggle, a long drawn out strategy of "war of position" in the Gramscian sense, rather than one of a quick all-out insurrection for seizure of power, or a "war of manoeuvre". Each tactical withdrawal or decision to utilize reforms was, therefore, not, as is often argued, a betrayal to imperialism,[115] neither was it proof of the Congress being non- or less-"revolutionary".[116] If the strategy followed by the Indian national movement led by the Congress was "reformist", it was reformist not as opposed to being "revolutionary" but as opposed to being "insurrectionary".[117]

There was nothing inherently bourgeois or capitalist about this strategy of anti-imperialism (which included S–T–S and working reforms within the perspective of transformation) though the capitalists supported it partially because, being a propertied class, they saw the other strategy of continuous all-out insurrection as one that could threaten their class interest. Perhaps in the specific context of colonial India it was the most effective strategy of anti-imperialism and even the working class may have needed to adopt the same strategy though it would have had lesser inhibitions than the capitalists regarding the latter strategy. What would crucially determine the class character of a movement is not the strategy adopted but under which class's political and ideological hegemony it was undertaken. In other words, the Congress was bourgeois not because it adopted

[115] Since the 1920s, the withdrawal of the Non-cooperation movement, the Nehru Report, the Gandhi–Irwin Pact, etc., have been cited ad nauseam as proof of the Congress having betrayed to imperialism. See Mukherjee, "The Workers' and Peasants' Parties". Gandhiji clarified the point: "Every retreat is not cowardice." Retreat could be "in the hope of resisting under other and better auspices.... Retreat itself is often a plan of resistance and may be a precursor of great bravery and sacrifice." *Harijan*, Vol. 9.13, 12 April 1942.

[116] Being "revolutionary" cannot certainly be taken to be coterminus with being "violent" or going in for an all-out continuous insurrection for seizure of power. Further, in the colonial context, being revolutionary did not necessarily mean being socialist. Lenin was quite clear on this point. When he termed any movement "genuinely revolutionary" in the colonial context, he did not mean that these movements would lead directly to socialism or lose their bourgeois democratic character. In fact he laid down certain criteria for determining whether these *bourgeois democratic movements* in the colonies were "revolutionary" or not, and by his own criteria he acknowledged the revolutionary role of Gandhi and the Congress. See Bipan Chandra, "Lenin and the National Liberation Movements", in Chandra, *Nationalism and Colonialism in Modern India*; and Mukherjee, "The Workers' and Peasants' Parties".

[117] It may be pointed out that "reformism" or tendency to compromise at a point of an all-out and immediate insurrectionary seizure of power may in effect play a counter-revolutionary role, but such an occasion never arose in the entire history of the Indian anti-imperialist struggle. See Miliband, *Marxism and Politics*, pp. 166ff., for an important discussion on reform, revolution and insurrection, where it is shown inter alia how Communist parties all over the world have repeatedly and for prolonged periods of time abandoned "insurrectionary politics" and still remained revolutionary and did not become "reformist" in the sense of attempting to maintain the existing system. This is true of the Communist parties in India since 1951, except the brief Naxalite interlude.

this strategy but because it remained till the end, despite contending hegemonies within it, under bourgeois ideological hegemony.

And further, the Congress adopted this strategy neither because it was allegedly a class party of the bourgeoisie, nor because it was supposedly pressurized or manipulated by the bourgeoisie to do so, not even because it remained within bourgeois ideological hegemony, but because it saw it as the most effective strategy of struggle in the given context. The capitalists, on the other hand, supported the Congress not only because it adopted an effective strategy of anti-imperialism (emerging as the unquestioned leader of the Indian national movement) which was also acceptable to them as a class, but because, despite ample potential and some threat of breaking out, it (Congress) remained, for a variety of reasons including the positions taken by the Indian Left, under bourgeois ideological hegemony. The capitalists, for example, might not have supported the Congress (or for that matter any other party) if it had actually come under socialist ideological hegemony,[118] even if it continued with the very same strategy of struggle; on the other hand there are several instances in history when the bourgeoisie itself supported an insurrectionary strategy when the movement was clearly under bourgeois ideological hegemony.

The question of the relative autonomy of the leading organ of the national movement, the Congress, from the bourgeoisie deserves a slightly longer treatment. I will not discuss here the tendency to see the Congress as virtually a class party of the bourgeoisie which has been popular since the 1920s among the Left in India.[119] I am more interested in its modern sophisticated version, which has found wide currency in recent serious academic writing, which sees the Congress as "pressurized" and "manipulated" by the capitalists in adopting policies dictated by the needs of the Indian capitalists. For example, it is often argued that the Indian capitalists, using chiefly the funds at their disposal as a bait, were able to "buy influence in political parties... and the press" and create widespread "propaganda", leading to the Swarajists supporting their point of view in the Assembly, the Congress Working Committee adopting a currency policy favoured by the industrialists and, more fundamentally, leading to the "doctrine of economic nationalism" propagated by "the industrialists" being substantially accepted by the Congress. "So much was this the case that Gandhi's famous eleven point 'subsistence [sic] of independence' presented in 1930, contained all the Bombay [i.e., capitalist] demands—reduction of the 'ratio' to 16 d., protective tariffs against foreign cloth, reduction

[118] The Communists in India did make sporadic attempts, e.g., in the 1920s and briefly in the 1930s, not without some success, to transform the Congress in the socialist direction. See Mukherjee, "Workers' and Peasants' Parties". Essentially however they had a totally different perspective towards the Congress, seeing it generally as a class party of the bourgeoisie.

[119] See Mukherjee, *ibid*.

of military expenditure, and the passage of a coastal tariff reservation bill."[120]

Similarly, the Indian capitalists are attributed with a greatly exaggerated role in determining the particular course followed by the Congress in its political struggle against imperialism. For example, Sumit Sarkar sees them as having played a "crucial" role in the decision of the Congress to go in for a period of truce with the Gandhi–Irwin Pact in 1931,[121] and as having exercised their "formidable influence" on the Congress, making it go in for negotiations for transfer of power during 1945–47 rather than follow more "militant" policies, including the launching of another mass movement.[122]

I disagree with these formulations. First, a programme of economic nationalism, with demands for protection, fiscal and monetary autonomy (including the economic demands in Gandhi's 11 points), was no mere class demand of the bourgeoisie. It represented the demands of the entire nation against imperialist exploitation. These were national demands for independent economic development which *had to be wrested* from imperialism irrespective of whether one had the perspective of establishing an independent bourgeois or socialist society.[123] Even Communists in their struggle against imperialism had to and did fight for these demands, though they had the perspective of socialism as their ultimate goal.

Second, the detailed working out of the "doctrine of economic nationalism" was done by the early nationalists in the nineteenth century,[124] i.e., decades before the Indian capitalists entered the political arena and began fighting for these demands. In other words, the ideological perspectives of economic nationalism had been created by the nationalist intelligentsia long before the capitalists themselves got constituted as a class (as distinct from existing only as an economic category and that too at a low level of development). It seems absurd therefore to argue that the Congress in the 1930s put up demands such as a lower Rupee/Sterling ratio and protective

[120] The quotations above are from Gordon, *Business and Politics*, pp. 179, 185–86, 192, 199. See also Markovits, "Indian Business and Nationalist Politics", pp. 96, 121, 172ff.; Clive Dewey, "The End of Imperialism of Free Trade", p. 22; and Chatterjee, "Business and Politics in the 1930s", p. 536, fn. 29, for similar views.

[121] Sarkar, "Logic of Gandhian Nationalism", p. 141. See also, Markovits, "Indian Business and Nationalist Politics", p. 99; and Chatterjee, "Business and Politics in the 1930s", p. 537, who accept this view.

[122] Sumit Sarkar, "Popular Movements and National Leadership 1945–47", *EPW*, Annual No., Vols 17.14–16, 1982, pp. 677–89.

[123] Also, it is often overlooked that freedom from imperialist exploitation, even when achieved while remaining within the bourgeois framework, was a gain not only to the bourgeoisie but to all classes of colonial society for whom imperialism was the primary contradiction, though the task of socialist transformation which sought to end bourgeois exploitation itself would still remain unfinished.

[124] See Chandra, *Rise and Growth of Economic Nationalism*.

tariffs (demands which it had been making since the 1880s) because it was bought, manipulated or pressurized by the Indian capitalist class.

Third, while it is true that the Congress needed and accepted funds from the business community, especially during constitutional (election) phases, the Congress dependence on such funds has been greatly exaggerated. The point is often missed that a popular movement attempting the overthrow of a structure is a qualitatively different phenomenon from a political party fighting a routine election in a relatively stable society—the former having far wider scope and avenues for sustaining itself financially or otherwise. A report on Congress finances by the Director of the Intelligence Bureau, in March 1939, shows partial awareness of this point. The report concluded: "Congress has also very important substitutes for regular finance. The 'appeal to patriotism' saves a host of cash expenditures. Free travelling by railway or public motor transport, fees levied on all transactions at markets, voluntary contributions collected at meetings, fairs, etc., by Congress volunteers are examples." Further, in reply to Viceroy Linlithgow's question, "Whether Congress can for long continue an existence divorced from the Gandhian moneybags", the report stated:

> *Both for normal Congress activities and for election purposes*, the moneybags are less important than the Gandhian superstition [read nationalist ideology] and the powerful influence of Congress ministries in office. With these influences to support them, local Congress organisations can command so much support from the public and also in more or less disguised form, from the official machinery, that they are in a position to fight elections without needing much money.[125]

More important, there is no evidence to suggest that, through whatever funds the capitalists made available to the Congress, they were able to undermine the autonomy of the party and in any basic way influence its policies and ideology along lines which were not acceptable to it on its own or independently. The colonial government also accepted this after making repeated attempts to establish a motivated and mechanical link between "big business" and the Congress in order to undermine the credibility of both. In response to yet another enquiry ordered by Linlithgow after the launching of the Quit India movement, the Intelligence Bureau (henceforth IB) after prolonged nationwide investigation concluded: "As to the relationship between big business and Congress, the available *evidence does not appear to justify any assumption that 'Big Business' has secretly been using Congress as an unsuspecting instrument towards the achievement of its own ends*, or vice-versa, but rather that the two have been working

[125] *Home (Political) Department*, fl. 4/14–A, 1940, emphasis mine.

together in a partnership of convenience with no illusions on either side."[126]

In any case, as in the case of earlier Congress movements, during Quit India "*the bulk* of the Congress funds" came not from a few big capitalists but a large number of petty tradesmen, shopkeepers, merchants and money-lenders (and professionals—it may be added) at the local levels.[127] Though the big capitalists also funded the movement liberally, more than they did for any movement earlier, they did so clearly not with the hope of controlling those they funded. There is no reason to believe that capitalists, like other classes in Indian society, could not be motivated by nationalism and national pride during a movement which represented above all nationalist outrage at the arrest of Gandhi and other leaders and which fatally shook the foundations of the British empire. After all, during the Quit India movement the capitalists are reported to have financed and helped in other ways the Congress Socialist Party (which played an important role in the underground activities) and eminent socialist leaders like Jaiprakash Narayan, Aruna Asaf Ali and Ram Manohar Lohia.[128] Fortunately, so far, no one has argued that the capitalists helped the socialists in order to influence their programme and strategy. The socialists for their part shared the view with "Right wing" Congressmen that big business support to the movement had been far from adequate. Leave alone being controlled or influenced by the capitalists the socialists believed they could "afford to ignore [this]...species of offal" as they were to depend on the Indian masses.[129]

Nor did "Right-wing" Congressmen, who often received generous contributions from the capitalists, become their stooges. Even the most Right wing leaders of the Congress certainly did not act at the "behest" of the capitalists, perhaps not even on their "behalf", though their perspectives often coincided. The capitalists tried to strengthen the Right wing by giving it support because of the relative identity of views between the two; the identity of views did not result from the capitalists' contributions or support. It seems rather far-fetched to assume that national leaders of the stature of Motilal Nehru, Sardar Patel, Rajendra Prasad and Mahatma Gandhi, with whom the capitalists normally had financial contact, came under some kind of control of the capitalists because of it.[130] They in fact

[126] Note on Congress and Big Business by Director, Intelligence Bureau, 28 February 1944, enclosed with Viceroy to Secretary of State, 3 April 1944, *L/P&J*/117 C27 MA, IOR, London, emphasis mine.

[127] *Ibid*.

[128] *Ibid*.

[129] *Ibid*. The quotation is from extracts of an issue of *Ninth August* (underground fortnightly edited by Achyut Patwardhan), 24 November 1943, cited in *Ibid*.

[130] There is here a very mechanical link between financial support and political and ideological positions—somewhat as ridiculous as the often repeated accusation that all academics

continued to pursue the national struggle according to their own precepts, some of them leading major mass movements even at times when such movements had become anathema to the capitalists. There were several instances where the so-called Right wing Congressmen differed from the capitalists on issues critical to the latter. For example, Gandhi refused, on political grounds, to support an agreement with Lancashire during the 1937–39 Indo-British Trade Negotiations. The capitalists, who felt the final agreement would be beneficial to India and to them, were persuaded to reject the agreement as they failed to get Patel, Gandhi and others around to their view.[131] Similarly, the capitalists were forced to publicly criticize even Congressmen like Bhulubhai Desai (who was considered to be very close to the capitalists) because of the stand taken by him in the Legislative Assembly in 1941, on the Income Tax Amendment Bill.[132]

A hint of Gandhi's attitude towards capitalist support may be obtained from the position he took virtually from the beginning of his political activity in India. In 1918 he declared that for Satyagraha money was the least important input.[133] During the Non-cooperation movement of the 1920s, while welcoming and even appealing for support from merchants and millowners, Gandhiji simultaneously maintained that,

> whether they do so or not, the country's march to freedom cannot be made to depend on any corporation or groups of men. This is a mass manifestation. The masses are moving rapidly towards deliverance and *they must move whether with the aid of the organised capital or without*. This must therefore be *a movement independent of capital and yet not antagonistic to it*. Only if capital came to the aid of the masses, it would redound to the credit of the capitalists and hasten the advent of the happy day.[134]

Similarly, Motilal Nehru (another so-called "Right winger") who in the Swarajist phase was in close contact with Bombay and Ahmedabad capitalists, accepting significant sums of money from them for Congress

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who accept foreign "imperialist" finances for research, etc., automatically become their ideological spokespersons. There is no reason to put the personal integrity and independence of our national leaders a few notches below that of the average academic, Left wing or Right wing.

[131] See Chapter 8 in this volume.

[132] Examples like these could easily be multiplied. Even Markovits at one point admits that "even the most pro-capitalist among the Congress leaders were not ready to sacrifice their overall objectives for the sake of keeping good relations with capitalists". Markovits, "Indian Business and Nationalist Politics", p. 243.

[133] See M.K. Gandhi, *An Autobiography: The Story of My Experiments with Truth*, London, 1966, pp. 363–64.

[134] *Young India*, 23 February 1922 in *The Collected Works of Mahatma Gandhi*, New Delhi, 1958–84, Vol. 32, pp. 459–60, emphasis mine.

activities, clearly set the tone for dealings with capitalists. In 1928, when negotiations with the capitalists came to nought, he had no hesitation in castigating them for their "new phase of devotion and loyalty to the government". He added:

> The Congress should welcome this change in attitude of the millowners. An alliance between the Congress and capitalists who are bent on profiting by the sufferings of the nation is an impossible one. The more suitable field of work for the Congress is among the workers in and not the owners of the mills. But I was misled by the patriotic talk of some of my personal friends among the millowners. Mahatmaji never believed in an alliance with the latter, and I have now told him that he was right and I was wrong.[135]

The message was loud and clear; the capitalists had to behave if the Congress was to work with them.

Fourth, the assertion made by Sumit Sarkar "that business pressures played a crucial role in bringing about a change in Gandhi's political stance in mid-February 1931", leading to the Gandhi–Irwin Pact, is based on rather scanty evidence.[136] Capitalists such as Purshotamdas had been arguing for cooperation since the Viceroy's declaration in 1929, and were critical of the Congress stand on this declaration, as well as the very launching of the Civil Disobedience movement in 1930. For example, on 6 February 1930, Purshotamdas wrote to Gandhi, asking him to respond to the Viceroy's "tangible gesture" in calling a Round Table Conference "long before the Simon Commission Report... and...inviting those who had boycotted it [Simon Commission] to a conference with the Cabinet". He added that only

> if the constitution is not sufficiently changed after the conference in London as to make us masters in our own house, i.e., to give Indians complete control over their domestic affairs, I can understand your

[135] Motilal to Lalji Naranji, 21 April 1928, *PT Papers*, fl. 40, pt. II.

[136] The evidence cited for this assertion is the following: (*a*) A telegram from Gandhi to Purshotamdas: "Your letter. Thanks. Earlier you come the better", dated 9 February, (*b*) Irwin's letter to Benn on the same day, saying essentially that Purshotamdas had met him and that he will "probably go to see Gandhi at Allahabad in order to put commercial pressure on him...", (*c*) D.P. Khaitan in a speech on 11 February suggesting "to Mahatma Gandhi and the Congress that the time has come when they should explore the possibilities of an honourable settlement". Sarkar, "Logic of Gandhian Nationalism", p. 141. Simply the fact that this speech and the meeting with Gandhi occurred in close proximity to Gandhi's shift in stance does not prove that the former caused the latter. If it was an "insult (to) the stature and wisdom of an undoubtedly great political leader" to argue that "Gandhi was simply converted by Irwin's alleged charm and courtesy (*ibid.*, p. 140), one wonders what was so irresistible about Purshotamdas.

> impatience. But to resort to civil disobedience during the brief intervening period does strike one as being a hasty (and risky) step... not conducive to the interests of India.[137]

Gandhi's reply to this was curt: "I must not enter into argument with you, for argument is useless when conviction on either side is deep seated. I can only give you my assurance that I shall take no hasty step. A risky step need not necessarily be a hasty step."[138] And as we know the Congress went right ahead with civil disobedience in this instance, as it did on other occasions such as in 1905–8, 1920–22, 1932 and 1942, despite the strong reservations of either the capitalist class as a whole or a significant section of it. If the capitalists' pressure on all such occasions did not divert the Congress from its chosen path, one wonders how it can be assumed that specifically in "mid February 1931" this pressure was decisive.

Interestingly, soon after the Gandhi–Irwin Pact, Gandhi himself felt the need to comment on the pressures put on him and their impact. At a meeting in Bombay, in March 1931, he said: "You may be sure that whilst I was being inundated with telegrams to make peace at any price, I was absolutely unmoved by them. I am inured to such things and I was absolutely firm that I must not allow any of these telegrams to make me flinch from whatever decision my inner voice gave me."[139]

The Congress decision to go in for the Pact in 1931 could arise, one may surmise, out of a host of other factors apart from capitalist pressure, such as the movement on its own petering out,[140] a rational calculation that before the movement died out on its own it would be better to call for truce and bargain from a position of relative strength, the understanding that such a pact would not be a surrender to the government but would cut into imperialist hegemony by forcing the government for the first time to enter into an official settlement with the Congress,[141] and so on. Even

[137] *PT Papers*, fl. 96.

[138] Gandhi to Purshotamdas, 9 February 1930, *PT Papers*, fl. 96.

[139] D.G. Tendulkar, *Mahatma, Life of Mohandas Karamchand Gandhi*, 8 volumes, New Delhi, 1969 reprint, Vol. 3, p. 67.

[140] Sarkar's own evidence shows that the movement was petering out by the end of 1930, in the cities, among the middle classes, and in the countryside—"the more purely Gandhian forms of struggle based on relatively propertied peasant groups were losing their earlier potency". Sarkar, "Logic of Gandhian Nationalism", pp. 132–36. It is doubtful as to what extent this movement against the British could be continued in the face of severe repression, on the basis of some sporadic tribal revolts and the possibility in certain areas of launching no-rent campaigns against the landlords.

[141] There is evidence to suggest that the British government as well as the Indian people, including the peasantry, saw the pact as having had the latter effect, and as a victory for the Congress. See Bhagwan Josh, "Indian National Movement, Dynamics of Hegemonic Politics", Mimeograph, March 1980; and Gyanendra Pandey, *The Ascendancy of the Congress in Uttar Pradesh, 1926–34: Study in Imperfect Mobilisation*, Delhi, 1978, pp. 129–30.

methodologically therefore it seems inappropriate to give such a crucial role in the decision for the pact to business pressure, that too on scanty evidence, without adequately investigating a range of other possible causes.

Similarly, the Congress had perhaps a number of reasons for going in for negotiations for transfer of power between 1945–47 instead of launching another mass movement, reasons other than giving in to bourgeois pressure. First, it was clear to everybody, especially after the Secretary of State's statement on 1 January 1946 and the sending of the Cabinet Mission to India in March 1946, that the British were actually going to leave. The question of launching a mass movement, on this account at least, did not arise, nor was any bourgeois pressure necessary for going in for negotiations for the actual transfer of power. Second, as for the argument that a mass movement should have been launched to prevent partition, it is highly debatable to what extent such a course, given the extremely volcanic atmosphere of those years due to communal bitterness, would have helped and not caused a greater tragedy than the one that actually occured.[142] Third, the argument that the Congress display of indecent haste under bourgeois pressure in entering into negotiations with the British for a "quick" transfer of power was caused by the fear of the growing strength of the Left (Communist) forces, of which the strike wave of 1946 was the greatest "proof", is based on nothing but popular Communist mythology.[143]

[142] There is also evidence to suggest that an important segment of British official opinion seriously considered unleashing severe repression and prolonging their stay by a number of years if the Congress at this point went in for a country-wide mass agitation for whatever reasons. See, for example, Sucheta Mahajan, "British Policy, Nationalist Strategy and Popular National Upsurge, 1945–46", in A.K. Gupta, ed., *Myth and Reality: Struggle for Freedom in India, 1945–47*, New Delhi, 1987.

[143] Sumit Sarkar's assertion that, by the end of 1945, "The CPI had displaced the Congress as the enemy no. 1" of the British, is reminiscent of similar claims made by Communists in 1928 when essentially on the basis of the 1928 strike and the anti-Simon Commission demonstrations it was argued that the "proletariat" had already emerged as "the leading and deciding factor" in the anti-imperialist movement. Mukherjee, "The Workers' and Peasants". Sarkar's own evidence however tells a different story. For example, in the 1946 elections, "Congress [won] a massive victory, polling 91.3 per cent of votes in the Central Assembly general constituencies and winning majorities in every province except Bengal, Punjab and Sind... while communists could capture only 8 provincial assembly seats, all but one of them in constituencies reserved for labour..." Sarkar, "Popular Movements", p. 26. I may add here that the eight seats that the Communists won in the provincial assemblies were out of a total of 1,585, with the Congress winning 923. N.N. Mitra, ed., *The Indian Annual Register*, Vol. 1, January–June 1946, Calcutta, p. 230. Further, the Communists fared quite poorly even in the constituencies reserved for labour. They could win only seven out of a total of 38 labour seats while the Congress won 23. *All India Congress Committee Papers*, fl. 26/1946. It is not as if this poor showing of the Communists was only because of the absence of general adult franchise, as the Communists' showing at the polls after independence, when adult franchise was introduced, was to show. In the 1952 elections the Communist Party won 16 seats out of a total of 499 in the Lok Sabha, and 106 seats out of a total of 3,291 in the State Assemblies, while the Congress won 364 and 2,246 seats, respectively. *Report on the First General Elections in India,*

Last, the Indian capitalists themselves never saw the Congress as their class party or even as a party susceptible primarily to their own influence.[144] On the contrary they saw the Congress as an open-ended organization, heading a popular movement with "room in it for men of all shades of political opinion and economic views",[145] and therefore open to being transformed in either the Left or the Right direction. It was precisely the fear (expressed as early as 1930[146] and destined to grow in the following years) that the Congress was shifting far too much to the Left, that led the capitalists to activate themselves and attempt to strengthen the Right wing in the Congress. It seems strange that just at the time when the Congress was most open to radical pressures for transforming it in the Left direction, with the growing influence of Nehru and the Left nationalists and, a little later, of the Congress Socialist Party (henceforth CSP) and the Communists, within the Congress, "nationalism" in India is seen as having "at last achieved firm anchorage with a basic social class", the capitalist class.[147] The fact that the capitalists became politically active in this period and were more unequivocal in their support to the Congress cannot by itself be interpreted as the national movement now being dominated by them. In fact one of the reasons why the capitalists became so politically active in this period was because of the rapidly growing influence of the Left in the national movement.

Significantly, the Indian capitalists did not see the Congress's acceptance of office in the provinces in 1937 as their class party having come to power but on the contrary found many of the Congress provincial

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1951–52, Vol. I, Delhi, 1955, pp. 16–18, 94. As for the 1946 wave of strikes there is evidence to suggest that they remained largely economistic and were not in any significant way merged with the anti-imperialist movement. See Sucheta Mahajan, "Pressures on a Colonial Regime and Working of Imperial Policy—Transfer of Power in India, 1945–47", Unpublished D. Phil. dissertation, Centre for Historical Studies, Jawaharlal Nehru University, New Delhi, 1991.

[144] It is very interesting to note that while, on the one hand, the Indian capitalists recognized the autonomy of the Congress, on the other hand, they made every effort to maintain the autonomy of their own class organization and were unwilling to let them become front organizations of the Congress or even become susceptible to party influence through the operation of factions formed by Congress supporters within the organization. See, for example, Purshotamdas to G.D. Birla, 31 July 1934 and G.D. Birla to Purshotamdas, 28 July 1934, *PT Papers*, fl. 42, pt. VI; *Indian Finance*, 11 August 1934; "A Glimpse—In the Near Past of the Indian Merchants' Chamber", pamphlet, *PT Papers*, fl. 126; and G.D. Birla to Kasturbhai Lalbhai, 27 September 1934, *ibid*.

[145] J.K. Mehta, Secretary, Indian Merchants Chamber to Purshotamdas, 3 February 1930, *PT Papers*, fl. 42, pt. 8.

[146] "Rightly or wrongly it [the Congress] is becoming a labour organisation", *ibid*.

[147] Sarkar, "Logic of Gandhian Nationalism", p. 127. C. Markovits also argues, "There is no doubt that, if before 1936 the business class had been submitted to the ideological influence of the nationalist movement, the trend was partly reversed in the period" that followed when "it was the turn of the Congress to feel the impact of capitalist ideas about economic development", "Indian Business and Nationalist Politics", p. 157.

governments moving "rather faster than expected" on issues vital to the class such as labour legislation, rural debt and other relief measures, and taxation policy. The situation was seen as one calling for more active participation by the capitalists in their class organizations to oppose this trend and urge the "provincial governments to hasten slowly".[148] Similarly, on the eve of independence the capitalists were anxious about the course the Congress was going to follow after independence, on the above issues, as well as regarding nationalization, the role of private enterprise, etc.[149]

Having argued that the Indian capitalist class did not create, lead or even crucially determine or influence the course of the Indian national movement, it would be interesting to identify its role in facilitating the maintenance of bourgeois ideological hegemony over the Indian National Congress, the leading organ of the Indian National Movement.

Most important in this connection was the fact that the capitalist class at no point abandoned the side of nationalism, whatever the fear or provocation, due to the radicalization of the national movement or the temptations offered by imperialism. If the capitalist class had gone over to the side of imperialism, it would have greatly facilitated the growth of the forces which argued for a simultaneous overthrow of imperialism and capitalism or at least for working class or socialist hegemony within the national movement. Since the Indian capitalists did not go over to imperialism, the task of the Left of eroding the hegemony of an ally in the common struggle against imperialism (the principal contradiction for all classes in colonial Indian society) became far more difficult. It called for a complex understanding of the concrete Indian reality and the evolution of equally complex strategies and tactics. This was a challenge which the Left essentially failed to measure up to. In fact the Left often chose to deny the reality itself and imagined the "convenient" scenario that the capitalists had gone over to imperialism.

Second, the capitalists were aware that bourgeois ideological hegemony in the anti-imperialist struggle was to be maintained not by simply buying up, manipulating or pressurizing the nationalist leaders, but by trying to successfully project its own class needs or interests as representing the societal interest or the interest of the nation; in Marx's words, by "... represent[ing] its interests as the common interest of all members of society".[150]

[148] See, for example, A.D. Shroff, G.G. Morarji, Sri Ram, C.S.R. Mudaliar, S.M. Basheer, Kedarnath Agarwal, etc., in FICCI, *AR*, 1938, pp. 27, 32, 83, 87, 113, 117, 120–22. See also Chapter 8 in this volume for the capitalists' response to radical measures taken by the provincial governments.

[149] See, for example, G.D. Birla in FICCI, *AR*, March 1947, pp. 41–50. See also Chapter 11 in this volume for a detailed discussion of this aspect.

[150] Karl Marx and F. Engels in 1846, referring to the bourgeoisie's struggle against feudalism, made the following comment which is relevant to the colonial situation in India as well:

> For each new class which puts itself in the place of one ruling before it, is compelled, merely in order to carry through its aim, to represent its interests as the common interest of

Indian capitalists in fact were extremely conscious that they should not ever be seen as pushing their own narrow class interest or putting class before nation, but must be seen as speaking in the interest of the Indian nation.[151] Further, this projecting of a class interest as the national interest was not achieved through manipulation, but by establishing a genuine coalescence of the two. In certain conjunctures, such as in a colonial society, there was up to a point a genuine unity of interests between the national bourgeoisie and the rest of society as all of them were oppressed by imperialism.[152] Similarly, the bourgeoisie could represent the interests of the rest of society in its own struggle against feudalism.

Third, a major index of the maturity of the Indian capitalist class was its ability to identify its broad long-term interest (i.e., maintenance of its overall ideological hegemony over the rest of society) and its willingness to subordinate its narrow short-term interest, sometimes at considerable cost, for the sake of the former. This perspective was necessary not only for sections within the class vis-à-vis the class as a whole, but also for the class vis-à-vis the rest of society. The leaders of the Indian capitalist class showed remarkable sensitivity to this aspect. This was evident, for example, from the manner in which they chalked out a "plan" envisaging a welfare capitalist system with partial nationalization, an important public sector and definite limits on the private sector and free enterprise,[153] or the manner in which they argued *against* reduction of the taxes levied during the war to mop up "Excess Profits" made by business enterprises.[154] Further, the Indian capitalists recognized the fact that a popular movement (and after independence a popular government) had to, to a certain extent, balance conflicting class interests.[155] Each class, being aware that it could not directly claim sole hegemony over it, would have to act in subtle ways essentially trying to ensure that the movement, despite contending hegemonies, remained, in substance, within the broad parameters of its class perspective.

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all the members of society, that is, expressed in ideal form: it has to give its ideas the form of universality, and represent them as the only rational, universally valid ones. The class making a revolution appears from the very start, if only because it is opposed to a *class*, not as a class, but as the representative of the whole of society, it appears as the whole mass of society confronting the one ruling class.

The German Ideology, Moscow, 1964, pp. 61–62.

[151] Evidence of this understanding of the capitalists can be seen throughout the following chapters. See particularly Chapters 11, 3 and 9.

[152] As N. Poulantzas also notes: "The national bourgeoisie is capable of adopting, in certain specific conjunctures of the anti-imperialist and national liberation struggle, *class positions which make it part of the people*, it can therefore be brought into a certain type of alliance with the popular masses." *Classes in Contemporary Capitalism*, p. 71, emphasis mine.

[153] See Chapter 11 in this volume.

[154] See Chapter 9 in this volume.

[155] See Chapters 11 and 12 in this volume.

Fourth, the capitalists showed awareness of the subtle processes through which a class retained its ideological hegemony over society. To begin with, it was recognized that the best "political-ideological" representative of a class was not necessarily a member of that class. The understanding was that which Marx had put very succintly while discussing the relationship between the "political and literary representatives of a class and the class they represent". He said: "what makes them representative of... [a particular class] is the fact that in their minds they do not get beyond the limits which the latter do not get beyond in life, that they are consequently driven, theoretically, to the same problems and solutions to which material interest and social position drive the latter practically."[156] The capitalists' tactic was to strengthen the hands of such representatives of their class. The capitalist leadership firmly opposed efforts by a section of the capitalists to try to extend their class hegemony by entering politics themselves directly or forming a class party.[157] G.D. Birla had brilliantly enumerated how such efforts went against the interest of capitalism and how the method of strengthening the hands of those who, without being members of their class, were saying what the capitalists wanted, was much superior for maintaining their long-term interests.[158]

Last, the failure or weakness of the Left, which lagged far behind the bourgeoisie in its understanding of some of the aspects mentioned earlier, especially the subtle relationship between class, party and nation, partially facilitated the continuance of bourgeois ideological hegemony over the Indian National Movement. The Left in its understanding of Indian society constantly tended to collapse the categories of class, party and nation, seeing a direct instrumental linkage between them. It failed to see the relative autonomy of the Indian National Movement from all classes including the bourgeoisie and resorted to crude class reductionism.[159]

Further, the Left had the tendency to crudely attribute all possible reactionary roles to the bourgeoisie and hope that this would "expose" the bourgeoisie, leading to a diminution of its influence or even its overthrow. When untrue, and sometimes blatantly so, such assertions carried little weight with the people. For example, the Communist argument that the Indian bourgeoisie was comprador or pro-imperialist and pro-feudal, or at least vacillating in its anti-imperialism and so was the Congress under bourgeois pressure, and that independence achieved by such a bourgeoisie or party *was not real independence at all*, but was a sell out, contributed

[156] Karl Marx, *The Eighteenth Brumaire of Louis Bonaparte*, Moscow, 1954, pp. 40–41.

[157] Interestingly, Antonio Gramsci drew from the European experience to note that "great industrialists... do not have their own party". They use "their resources to reinforce one party or another... from the varied political checkerboard". *Selections from the Prison Notebooks*, New York, 1971, pp. 155–56.

[158] See pp. 58–60; and fns 63, 64 in this chapter.

[159] See Mukherjee, "Workers' and Peasants", and Chandra, *The Indian Left*.

considerably to the Communists' alienation from the Indian people. The people even in their common-sense wisdom could see the falsity of these charges. What the Left needed to do was to identify and recognize all the socially positive aspects of the Indian bourgeoisie, and then undertake the difficult and real task of demonstrating why, despite these positive aspects, the bourgeois class perspective was inhibiting or preventing social progress along the most desirable lines. A task the Left failed to perform, even after independence.[160] This has led to a Left that has remained relatively weak, always claiming that it is "small but growing", a Left that has never posed a serious threat to bourgeois ideological hegemony.

[160] See Chapter 12 in this volume.

THREE

Finance and Monetary Policy I: 1926–28

I. Introduction

The question of India's financial and monetary policy has been an extremely important aspect of British rule in India virtually since its inception. On this was dependent the crucial and continuing interest of British rule through all its stages, namely, the unilateral remittance or transfer of surplus from India under heads such as the home charges or what the early nationalists called the "drain" or "tribute". It is generally not recognized that even in the second half of the nineteenth century the entire controversy over tariff duties did not centre only around the pressure of the Lancashire textile manufacturers' lobby but was equally if not more concerned with the Government of India's compulsion to raise enough revenue to meet the remittance.

In the twentieth century, especially since the First World War, there occurred, along with the decline in some of Britain's "traditional" interests in India (viz., a shrinking market and a fall in British investments),[1] a rapid stepping up of direct appropriation of surplus through increase in home charges, currency manipulation, forced loans, appropriation of India's dollar and other hard currency earnings, war gifts and the rapid rise in military expenditure.[2] Maintenance of remittance from India to Britain at

[1] See Chapter 1 in this volume. I have also argued there that the decline in the British exports to and investments in India did not amount to "decolonization". It may be noted that though British foreign investments as a whole showed a decline compared to her domestic investments after the First World War, her investments in India began to decline only with the onset of the Depression in 1929.

[2] For example, home charges increased from approximately £20 million in 1913–14 to £32 million in 1924–25. Military expenditure doubled from £5 million to £10 million and interest charges on external public debt increased from about £6 million to £13 million over the same period. Ray, *Industrialisation in India*, pp. 11–13. During the Second World War defence

any cost became the centre piece of British economic policy in this period. Britain, having lost its industrial supremacy in the world by the end of the nineteenth century and particularly by the beginning of the twentieth, was increasingly emerging as the major financial centre of the world with the pound sterling as its foundation[3]—a position Britain was able to maintain to a large extent with the aid of India, by manipulating blatantly her currency, exchange and budgetary and financial policy to strengthen and keep up the supremacy of the sterling.

It is small wonder, then, that finance was one portfolio the British refused to part with (even in the limited sense of appointing an Indian of *their* choice to the Viceroy's cabinet) till the very end, i.e., till the formation of the Interim Government in 1946. Several other economic portfolios such as those of commerce, industry, planning and development, and supply were given to Indian members long before that.

An India Office document marked "secret" and called "The Position of the Secretary of State in Relation to Indian Finance"[4] brings out clearly some of the reasons for the crucial importance attached to this question by the British. It was stated that about 60 per cent of the Indian government's budget, i.e., about £60 million out of £100 million, was absorbed by military expenditure, sterling debt charges and liabilities in respect of salaries and pensions for officials for which the Secretary of State was responsible. Of this, defence expenditure alone absorbed 45 per cent of the central revenues. When such a large proportion of the revenue was earmarked for charges for which the Secretary of State was responsible, it was pointed out that "it is hardly open to doubt that Parliament should retain the power to secure that its obligations are duly honoured".[5] Since the "revenues from which these commitments must be met are collected in rupees", and the "commitments" were in sterling, it was "incumbent" upon the Secretary

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expenditure increased from about Rs 500 million in 1939–40 to 4,580 million in 1944. The proportion of the total expenditure of the central government accounted for by defence services was about 55 per cent in 1920–21 rising to 75 per cent by the end of the Second World War. Subramanian and Homfray, *Recent Social and Economic Trends*, pp. 15, 72; Tomlinson, *Political Economy of the Raj*, p. 93. The currency manipulations of the inter-war period and the forced loans taken during the Second World War have been discussed later in the chapter.

[3] See E.J. Hobsbawm, *Industry and Empire*, Harmondsworth, 1969, Chapter 7, particularly, pp. 148–53.

[4] 8 December 1930, *Finance Department* (L/F)/5/191, IOR, London. See also another similar document dated 17 June 1931, signed by R.A. Mont, H. Strakosch, L.J. Kershaw and C.H. Kisch, *L/F/5/191*, IOR, London.

[5] 8 December 1930, *L/F/5/191*, pp. 3, 8. Assurances that the Indian Federal Government would meet these obligations as a first charge on the government budget were clearly not considered enough. The note anticipated and rejected parallels with Australia in this regard that were repeatedly drawn by Indian capitalist and nationalist leaders with the argument, rarely made publicly, that "Australia, however, is a country where the government is of our own kith and kin". *Ibid.*, p. 9.

of State to see "that currency and exchange are being so managed" as to "permit of the remittances of the requisite funds from India to London". Also, he had to ensure that the revenue and expenditure of the Government of India were balanced.[6] In other words, the Secretary of State needed the "power to *impose* on the Indian Executive such measures as are needed to *provide the funds* and to *facilitate their transfer*...from India to London".[7]

Further, apart from the Secretary of State's responsibility for obligations on the current account, it was pointed out that the capital invested by the British both in private enterprise and in government debt was also his responsibility. The sterling loan obligations of the Secretary of State, estimated at £347 million on 31 March 1930 and an additional £200 million invested in private enterprise, were, it was argued, made available by the British public "on the strength of a conviction that the British Government would not allow a state of things to arise that might jeopardise the capital supplied to the country", i.e., it would guarantee "immunity from discriminatory taxation or legislation, and sound financial administration". Further, not only did the existing British investments have to be safeguarded but a suitable climate had to be maintained for future investments.[8]

It was therefore felt that, until adequate circumstances to protect all the above interests were created, "it would be out of the question to relax the Secretary of State's control over monetary policy".[9] The formation of the Reserve Bank under the ultimate control of the Secretary of State (more on this later) and the financial safeguards were in this context seen as necessary prerequisites to any relaxing of control over the finance portfolio in the constitutional discussions in the Round Table Conferences of the early 1930s where it was "anticipated that the Indian delegates will press strongly for a complete surrender of financial control".[10] Leave alone a complete surrender of financial control, it was argued that it was not feasible to have an "Indian Finance Minister responsible to legislature" with "substantially increased financial powers" (i.e., not complete powers) even if he was placed under the supervision of a Financial Adviser "appointed by and responsible to the Secretary of State", who would have "a right of veto and of requiring positive action in any matter that he considered of importance".[11] It was frankly accepted that in such a scheme

[6] *Ibid.*, pp. 2, 4.

[7] *Ibid.*, p. 11, emphasis mine.

[8] *Ibid.*, pp. 3, 5, 8.

[9] *Ibid.*, pp. 5–6. Also see Secret Memorandum on Financial Safeguards circulated to Cabinet Committee, Indian Round Table Conference, *Pethick Lawrence Collection*, Mss. Eur. D./140/1, IOR, London.

[10] 8 December 1930, *L/F/5/191*, p. 1.

[11] *Ibid.*, p. 11; and 17 June 1931, *L/F/5/191*, p. 6.

where the "Secretary of State retained the true responsibility the transfer of authority to India would be a sham" and "if the ultimate control must be retained in the Secretary of State's hands to ensure confidence, there seems no possible means of disguising the fact...".[12]

Predictably, in the Round Table Conferences the question of transfer of financial responsibility and commercial and financial safeguards acquired centre stage. The British Prime Minister in a memorandum to the British delegates at the Round Table Conference made it clear that the main issue in the constitutional discussions for the transfer of power would be the question of financial and commercial safeguards.[13] Most of the official notes as well as appeals made by British commercial interests in India and England[14] emphasized this point with one official note suggesting that "far from weakening the safeguards as demanded by some of the Congress leaders, it would be desirable, if it were possible, that they should be strengthened".[15] On the Indian side too this became a major issue with the Indian delegates, including the Indian capitalists. Gandhiji himself took a tough stand on this question. In March 1931 (i.e., after the Gandhi–Irwin Pact), he expressed grave doubts about the usefulness of the Congress participating in the Round Table Conference if the British government's attitude remained unalterable on the question of financial safeguards.[16]

"Finance" was thus a crucial area for the maintenance of British imperial interests and it understandably led to both sides assuming strong economic and political positions. It is in this context that in this chapter I will discuss the dominant position of the Indian capitalist class on some of the major issues that arose in this regard. The issues that I will highlight for the inter-war period, especially since 1926, will relate to the controversy over the "ratio" or the exchange rate for the rupee, the establishing of the Gold Standard, the setting up of the Reserve Bank, the linking of the rupee to the sterling, massive gold export from India in the 1930s, financial policy during the Depression, and so on. The major issues that came up during and immediately following the Second World War were the tremendous increase in military expenditure, the rapid accumulation of massive sterling balances

[12] 8 December 1930, *L/F/5/191*, p. 11.

[13] Memorandum distributed to British Government Delegates at the Round Table Conference by Prime Minister's Orders, 19 November 1930, *Private Office Papers* (L/PO)/23, IOR, London.

[14] See, for example, Report of meeting with European Delegates from British India, 19 September 1931 and 2 October 1931, *Economic and Overseas Department* (L/E)/9/1156. Also see Demetriadi, Chairman, London Chamber of Commerce to Birkinhead, 14 September 1928, *L/E/9/865*, IOR, London.

[15] 17 June 1931, *L/F/5/191*, p. 8.

[16] Note of interview with Mr Gandhi of the Bombay Governor, 19 March 1931, *Sykes Collection*, Mss. Eur. F. 150/3a. See also Note by Emerson, Home Member, Government of India, of interview with Gandhi, 7 April 1931, *Sykes Collection*, Mss. Eur. F. 150/3b.

with India, the setting up of the Empire Dollar Pool, the Bretton Woods Conference and the question of India's participation and role in the proposed International Monetary Fund and the International Bank for Reconstruction and Development.

While discussing the Indian capitalists' position on the above questions the attempt will be to highlight a few broad aspects. First, the manner in which the capitalists opposed and exposed the British attempt to subordinate the instruments of state policy to meet imperial interests, riding roughshod over the needs of the Indian economy. Second, the way the capitalists began over time to underline the view that ultimately the solution to India's economic problems had to be political, i.e., the transfer of financial and fiscal authority from the Secretary of State and Whitehall to the elected representatives of the Indian people.

Third, the manner in which the capitalists, while putting forward their own positions, took extreme care to project these positions as geared not merely to their own class interests but those of the society or the Indian nation as a whole.

As I have discussed in Chapters 2 and 12, the capitalists' attempt was to develop a hegemonic anti-imperialist economic ideology (albeit from a bourgeois developmental perspective) and not merely agitate for their narrow class demands. They showed remarkable maturity in realizing that it was the former which could deliver the goods vis-à-vis imperialism by mobilizing as well as acquiring the sanction of the nation behind the demands put forward by them, while the latter would make them appear as merely self-seekers or class egoists. Further, the capitalists were not projecting their positions as representing national interests in a purely manipulative manner. Many of them, such as Purshotamdas Thakurdas, were genuinely operating in the economic sphere as members of the nationalist intelligentsia. Their positions did largely represent national interests in a colonial context and the tallest nationalist leaders freely accepted their advice and views and sought their help in negotiating complex financial matters.

II. The Ratio

First a brief account of the history of the rupee until 1926.

Indian currency was put on the silver standard in 1835 and the Coinage Act of 1870 established an open mint, i.e., made it mandatory upon the government to mint rupees in exchange for silver bullion. The rupee was now a natural currency and its exchange value (based on the gold price of silver) with countries on the Gold Standard was around 2s. However, after 1873, the gold price of silver began to decline steadily and the exchange

value of the rupee also fell rapidly in relation to most western countries which were on the Gold Standard. The rupee depreciated from 2s in 1872 to 1s 2.5d in 1893–94, raising a major controversy in India regarding the impact of this fall in exchange and the steps to be taken to remedy it.[17]

In 1893 the all-British Herschell Committee appointed by the government recommended the closing down of the mints to the free coinage of silver to contain the falling exchange value of the rupee. Through this and other administrative measures contracting the supply of rupees,[18] the exchange value of the rupee was raised to about 1s 4d, the rate recommended by the Herschell Committee. The Fowler Committee, again all-British, also accepted this rate and in 1899 the rupee was officially fixed at 1s 4d gold, i.e., 7.5334 grains of gold to a rupee.[19]

This remained the effective standard until 1917, after which, following the abnormal increase in the price of silver caused by the war, the government raised the "rates for the sale of Council Drafts to correspond roughly to the price at which silver for coinage could be bought".[20] The government thus treated the rupee as being virtually on the silver standard, stepping up the exchange rate as silver prices rose, and not on the existing Gold Exchange Standard where the silver rupee was to be only a token coin.[21] In fact, as a result of the inflation during the war (caused partially by India being paid for the goods and services it supplied during the war "neither in goods nor in silver, nor gold but in British treasury bills" against which rupees were issued), the rupee should have fallen but instead the government started to raise it.[22]

On the recommendation of the Babington–Smith Committee, in September 1920 the Government of India fixed the rupee at 2s gold when the actual rate was 1s 4 $\frac{5}{16}$ d gold and gold prices were falling, i.e., the rupee could have fallen further.[23] D.M. Dalal, a businessman and the only Indian member of the Committee, wrote a minute of dissent arguing for maintaining the old rate of 1s 4d.[24] The 2s rate which was put on the statute book was "neither the *de facto* rate, nor was it warranted by world conditions", and

[17] See Bipan Chandra, *Rise and Growth of Economic Nationalism in India*, Chapter VII, for a survey of the nationalist position on this controversy, and pp. 272–73 for the above account.

[18] The contraction of currency led to such stringency in the market "that the Bank of Bombay had to refuse to lend money even at 18 per cent...". Note by B.F. Madon, 21 July 1924, *PT Papers*, fl. 44.

[19] See G.D. Birla, *Indian Currency in Retrospect*, Allahabad, 1944, p. 7; and Purshotamdas Thakurdas, "Minute of Dissent", Report of Royal Commission on Indian Currency and Finance, 1926 in *Reports of Currency Committees*, Calcutta, 1931, p. 435.

[20] *Ibid*.

[21] Birla, *Indian Currency*, p. 10.

[22] *Ibid*.

[23] Thakurdas, "Minute of Dissent", p. 435.

[24] Birla, *Indian Currency*, p. 12; and *LAD*, Vol. II, 7 and 8 March 1927, pp. 1796–97, 1854.

to achieve this rate the government resorted to sale of Reverse Councils,[25] dissipating up to £55.5 million of the sterling reserves accumulated by India during the war, and contracted rupee supply by deflation to the extent of Rs 350 million.[26]

However, despite these drastic measures, the exchange rate continued to fall, leading to the government abandoning its efforts to stabilize the rupee at 2s gold. The rupee was temporarily allowed to adapt itself to market conditions. This led to violent fluctuations, with the rupee varying from 11 $\frac{9}{32}$ d to 1s 3 $\frac{7}{8}$ d between August 1921 and September 1924.[27] Sir Vithaldas Thackersay, an Indian capitalist, had moved a resolution in the Assembly in January 1921 urging the government to revise the dead ratio of 2s gold, but his resolution lost by four votes.[28]

There was an opportunity in September 1924, when the rupee was approximating 1s 4d gold, of restoring this ratio to the statute book. The government however refused to do so despite such a suggestion in the Legislative Assembly and instead pushed the rupee up to 1s 6d gold by June 1925 by severely restricting the normal expansion of currency in India.[29] Even the Government of India at this time felt constrained to warn the Secretary of State (in October 1924) against trying to appreciate the rupee further as "the volume and importance of opposition to this policy", which was leading to stringency in the market, was "increasing".[30] Not receiving any favourable response the Government of India had to press this point again.[31]

It was in this context that in August 1925 the Royal Commission on Indian Currency and Finance, popularly known as the Hilton Young Commission after its chairman, was appointed. Sir Purshotamdas was selected as a member of this Commission.

Though Purshotamdas's selection was generally welcomed, a section of the Indian Merchants' Chamber (henceforth IMC)—people like L.R. Tairsee and K.T. Shah—argued that given the composition of the Royal Commission,

[25] The Sale of Reverse Council Bills in effect used up India's gold and sterling reserves to withdraw rupees from India thus contracting the currency and pushing up the rupee as well as depleting India's gold resources. Also, as G.D. Birla argued, the £55 million sterling reserves were sold at rates varying from 2s to 2s 10d, compared to the old exchange rate of 1s 4d, involving a total loss to India of something like £25 million. Even gold was sold at below market rates. The government, he said, was indulging in "a virtual loot of India's sterling and gold". Birla, *Indian Currency*, p. 12.

[26] Thakurdas, "Minute of Dissent", p. 435; and article by Purshotamdas Thakurdas, "Currency and Exchange", in a volume published by the American Academy of Political and Social Sciences, May 1944, *PT Papers*, fl. 280.

[27] Thakurdas, "Minute of Dissent", p. 435.

[28] *Ibid.*, p. 438; and *LAD*, Vol. II, 7 March 1927, pp. 1796–97.

[29] Thakurdas, "Minute of Dissent", p. 436.

[30] Birla, *Indian Currency*, pp. 13–14; and *LAD*, Vol. II, 7 March 1927, p. 1798.

[31] Birla, *Indian Currency*, p. 14.

packed as it was with people with views very close to the government's, the IMC should boycott the Commission and Purshotamdas should resign from it.[32] Purshotamdas, however, refused to succumb to such "dictation" for the sake of "playing to the gallery" and argued that he had agreed to serve on the Commission at great personal cost to himself and his business (as it involved a prolonged period of absence) on the conviction that it was the "call of duty towards my country". Further, he pointed out that since the launching of non-cooperation several commissions were boycotted and the "recommendations of such commissions have been put into execution, e.g., Lee Commission, Muddiman Committee etc.", at great cost to the country. Now that non-cooperation was given up in the political field, he strongly argued against a move which would take away this opportunity of putting forward "the views of the people of India". He also pointed out that in the Acworth Committee, out of the five who voted with him for state management of railways, three were Europeans, though in the case of this Commission (Hilton Young) he was not so sanguine and anticipated a stronger fight because "the vested interests that are likely to be affected by a just policy of the Commission are much more grave and serious for the other side".[33]

Purshotamdas eventually did participate in the Royal Commission, though, as predicted by Tairsee of IMC, given his views he was "doomed to be in a minority of one".[34] Purshotamdas was the only member out of 10 to write a note of dissent to the final report of the Commission which came out in July 1926. R.N. Mookerjee, M.B. Dadabhoy and J.C. Coyajee, the three other Indian members of the Commission, signed the majority report.

IIa. Hilton Young Commission: The Government View

The major arguments put forward by the Hilton Young Commission in defence of the 1s 6d ratio were that it was already the de facto ratio now for quite some time, that prices, wages, etc., had already adjusted to this rate, that it would ease government finances and that it would benefit the consumers through the cheapening of imports and wage earners by raising their real income. Purshotamdas in his minute of dissent and the capitalists in general questioned and sought to counter each of these contentions and built up a detailed and complex argument for the lowering of the

[32] J.K. Mehta (Secretary IMC) to Purshotamdas, 26 August 1925 and Purshotamdas to Indulal Yagnik, 3 September 1925, *PT Papers*, fl. 55.

[33] Purshotamdas to B.F. Madon, 29 August 1925 and to Indulal Yagnik, 3 September 1925, *PT Papers*, fl. 55. G.D. Birla also thought that something good might come out of the Commission though Purshotamdas would have to "fight hard". G.D. Birla to Purshotamdas, 18 January 1926, *PT Papers*, p. 55.

[34] Tairsee's letter to IMC, quoted in J.K. Mehta to Purshotamdas, 26 August 1925, *PT Papers*, fl. 55.

ratio. All the Indian chambers of commerce (about 44 of them clearly expressing their opinion) as well as many of the Indian academic economists argued in favour of 1s 4d and all the chambers dominated by Europeans supported the government stand of 1s 6d, though a few individual Europeans did oppose it.[35]

The Indian capitalists used all possible forums, including the Indian Industrial and Commercial Congress (the forerunner of FICCI), the Legislature and, of course, the Currency Commission itself to put forward and agitate for their case. The Currency League was also formed with the objective of mobilizing public opinion for a Gold Standard and 1s 4d ratio through pamphlets, leaflets, newspaper articles in English and regional languages, lectures, discussions, etc., via branches all over the country.[36]

Purshotamdas persuaded the eminent nationalist and public figure Srinivasa Sastri to accept the presidentship of the Currency League, partially to lend credibility to the agitation and counter the government charge that it was merely a capitalists' agitation.[37] In the Assembly, Purshotamdas repeatedly urged the need for unity as the government was trying to create divisions based on region and class by describing his dissent (to the Currency Commission Report) as pro-Bombay, pro-capital and anti-labour.[38] The capitalists consistently highlighted, as we shall see below, the view that their position would in fact benefit the "toiling millions", the agriculturists of India. In response to the government charge, Purshotamdas also tried to establish a lineage between the current agitation and the position taken by the tallest of the nationalist leaders in the past and pointed out how "giants" like Dadabhai Naoroji, R.C. Dutt and Dinshaw Wacha had intervened on the currency question and demanded a lower ratio, with Gopal Krishna Gokhale being the "first to challenge in the Imperial Legislative Council the financial and currency policy of the Government of India quarter of a century back...".[39]

[35] See *LAD*, Vol. II, 8 March 1927, pp. 1884–91. There were a few Indian businessmen such as Kikabhai Premchand who supported the 1s 6d ratio. *Ibid.*, pp. 1862–63. Doubts were also raised in the Legislative Assembly over the position of the Bengal National Chamber of Commerce (BNCC) though this body had clearly favoured 1s 4d in their evidence to the Hilton Young Commission. *Ibid.*, pp. 1884–91; and *Royal Commission on Indian Currency and Finance, Evidence*, Vol. II, London, 1926 (henceforth *Curr. Com., 1926, Evidence*), pp. 336–39. For the support of lower ratio by Indian economists like Professor D.A. Wadia, R.M. Joshi, Panandikar, and C.N. Vakil, see Vakil to Purshotamdas, 29 August 1925, *PT Papers*, fl. 55. See also C.N. Vakil and S.K. Muranjan, *Currency and Prices in India*, Bombay, 1926, pp. 516–19.

[36] See the Constitution of the Currency League in "Battle of Ratios", Indian Currency League, Pamphlet No. 7 (undated).

[37] Purshotamdas to Srinivasa Sastri, 18 October 1926, *PT Papers*, fl. 62.

[38] See *Bombay Chronicle*, 1 November 1926; and Purshotamdas's speech, 11 October 1926, Indian Currency League, Poona, *PT Papers*, press clipping, fl. 17.

[39] Speech by Purshotamdas on his return from the Currency Commission deliberations, 10 November 1926, *PT Papers*, fl. 62; and Purshotamdas in *LAD*, Vol. II, 8 March 1927, pp. 1892–93.

An attempt was also made to "educate" the leading nationalist leaders of the day like Motilal Nehru and Mahatma Gandhi in the major contemporary economic issues, especially those relating to currency and finance.[40] Purshotamdas strongly urged Gandhiji to take up questions like currency for the sake of the poor agriculturists and thought it a "misfortune to the country that in such an important question which vitally affects the well being of the country, such a person as ... [Gandhi] should be as ignorant as ... [a] scholar in a primary school".[41] (This was how Gandhiji had described himself.) All support was needed to fight the worst "of all the handicaps inflicted on the country by Government... a currency system which can be manipulated at the sweet will of the India office".[42]

The nationalist leaders on their part freely sought help from people like Purshotamdas and rallied behind many of the demands raised by them. Motilal Nehru, for example, asked Purshotamdas, an "expert" on the subject, to write a draft with the help of people like B.F. Madon on the economic hold the government had acquired on India during the last five or six years in the spheres of currency, trade, banking, etc., which he would use in his presidential speech at the Indian National Congress. The Congress presidential speech, he added, would be "more useful than any number of resolutions passed by the Assembly or the various chambers of commerce...".[43] Motilal also took necessary steps to secure Swarajist support for Purshotamdas's position in the Assembly on the currency debate when it was realized that the government was going to try to push through a Currency Bill.[44]

The government however was able to carry the Currency Bill through the Assembly in March 1927 despite herculean efforts by Congress leaders and capitalists. Assent was secured for 1s 6d with a narrow margin of only three votes (68 to 65),[45] given, as Purshotamdas put it, "the peculiar circumstance of our constitution"[46] where the Assembly was packed with officials and nominated non-officials.

Let us now briefly look at the arguments put forward by the Indian capitalists on the question of the ratio, the Gold Standard, etc., in response to the majority report of the Currency Commission. I will deal with the years

[40] See, for example, Purshotamdas to Motilal Nehru, 1 December 1928 and Purshotamdas to Gandhi, 16 July and 22 August 1928, *PT Papers*, Press clipping, fl. 11.

[41] Purshotamdas to Gandhi, 1 December 1926 and 22 August 1928, *PT Papers*, fl. 55 and press clipping, fl. 11.

[42] A draft reviewing the economic policy of the Government of India for use in Motilal Nehru's Congress presidential speech, sent by Purshotamdas, 1 December 1928, *PT Papers*, press clipping fl. 11.

[43] Motilal to Purshotamdas, 15 November 1928, *PT Papers*, press clipping, fl. 11.

[44] Motilal to Purshotamdas, 11 August 1926, *PT Papers*, fl. 62.

[45] *LAD*, Vol. II, 8 March 1927, pp. 1894–95.

[46] *LAD*, Vol. III, 22 March 1927, p. 2533.

from 1926 to 1928 in some detail as the broad contours of the capitalists' arguments on the currency question were basically laid down in this period.

IIb. The Capitalists' View

First, the capitalists strongly opposed the government claim that 1s 6d had become the de facto rate and therefore the rupee should be fixed at that rate. It was argued that 1s 6d was not the "normal" rate as 1s 4d had "stood for 20 years... till 1917 and was only disturbed as a result of the war". The higher rate was achieved only over the last one year (since June 1925) through "artificial" administrative "manipulation".[47] "The technique of first making the rupee scarce, forcing up the exchange value and then appointing a commission to get its approval in favour of the *fait-accompli*", it was said, "had been practiced too often".[48] The government was accused of deflating or contracting Indian currency to the tune of about Rs 450 million between 1920 and 1924 and another 160 or 170 million up to 1927 in an effort to push up the rupee–sterling exchange.[49] While the normal pre-war expansion of currency was over Rs 200 million per year, the average expansion between 1921 and 1925 was nearly half that figure, i.e., 111.2 million per year.[50] Further, it was pointed out that the artificial raising of the exchange rate had the necessary impact of increasing imports and decreasing exports, leading to a fall in the exchange rate and necessitating further deflation to keep up the artificial rate.[51] Purshotamdas in his minute of dissent forcefully urged that the "Executive had made up their minds to work up to 1s 6d ratio long before this Commission was appointed to examine the question. Indeed, they have...not...hesitated by manipulation to keep up the rate even while we were in session. I cannot conceive of any parallel to such a procedure in any country".[52] He also pointed out that "no other country" except India had "adopted a rate of exchange higher than its pre-war rate".[53]

Second, the government assertion that prices and wages had already been adjusted to 1s 6d was questioned. It was pointed out that, while the export and import prices almost automatically adjust to changes in exchange, internal prices adjust with a time lag. Keynes' estimate that for a

[47] Thakurdas, "Minute of Dissent", pp. 437, 456.

[48] Birla, *Indian Currency*, p. 14; and G.D. Birla in *LAD*, Vol. II, 8 March 1927, pp. 1860–61.

[49] G.D. Birla in *LAD*, Vol. II, 8 March 1927, p. 1859; and Resolution passed by the Indian Industrial and Commercial Congress, *Annual Report* (henceforth IICC, *AR*), 1926, p. 33.

[50] Thakurdas, "Minute of Dissent", p. 436; Purshotamdas in *LAD*, Vol. II, 7 March 1927, pp. 1804–05.

[51] Indian Chamber of Commerce, *Curr. Com., 1926, Evidence*, p. 288.

[52] Thakurdas, "Minute of Dissent", p. 457.

[53] *Ibid.*, p. 456.

country like United Kingdom two years were necessary for an adjustment to take place to a 10 per cent variation in exchange was cited. And it was argued that if for the UK, with a very high proportion of external trade to total trade, adjustment could take so long, for India, with her internal trade being 10 to 15 times her external trade, adjustment of prices would take much longer—about 10 years.[54] Purshotamdas argued in his note of dissent that "the greater part of the general adjustment to 1s 6d by a fall [in prices] is still to come".[55] Similarly, G.D. Birla estimated that prices had adjusted to about 4 per cent and another 7 per cent or more in exchange rate variation was still to be adjusted.[56] (The change from 1s 4d to 1s 6d represented a variation of about 12.5 per cent in the exchange rate.)

As for wages, here too it was argued that real wages, whether agricultural, industrial or clerical, had not adjusted to 1s 6d, as there had been "no reduction so far from the level of wages in 1921, when the rupee was below 1s 4d".[57] It was pointed out that once an increase in wages was given, the trade union movement in India would not permit a cut on any account and, in fact, if "an adjustment in wages to the 1s 6d basis" was to be enforced, it would "entail a long and bitter struggle between labour and capital with consequent disturbance in the economic organisation of the country".[58] To decide on 1s 6d was to give "a mandate to the parties concerned to reduce wages...", involving "serious struggles" and a strain on industry which was to be avoided.[59]

Also, it was argued that since wages had not actually adjusted to a higher ratio there was no basis in the government argument that a lower ratio or 1s 4d would involve demand for a hike in wages for government employees and consequently strain government finances, thus forcing them to levy additional taxation. Besides, as far as the Indian Civil Service (ICS) was concerned, their salaries were fixed on the basis of the Lee Commission recommendations which "were certainly not based on a rate of exchange higher than 1s 4d gold".[60] The European salary earners and investors would in fact get an almost automatic increase in their remittance home with a higher exchange rate.[61] Also, the government servant with a fixed salary would get a 12.5 per cent increase in his real earnings in India once local prices adjusted by a fall to 1s 6d.[62] However, in the case of

[54] Thakurdas, "Minute of Dissent", p. 439; Purshotamdas in *LAD*, Vol. II, 7 March 1927, p. 1806; G.D. Birla in *LAD*, Vol. II, 8 March 1927, pp. 1857–58.

[55] Thakurdas, "Minute of Dissent", p. 444.

[56] *LAD*, Vol. II, 8 March 1927, p. 1858.

[57] Thakurdas, "Minute of Dissent", p. 448.

[58] *Ibid.*, p. 447.

[59] *Ibid.*; and Thakurdas in *LAD*, Vol. II, 7 March 1927, p. 1803.

[60] Thakurdas, "Minute of Dissent", p. 448.

[61] B.F. Madon's letter to *The Times of India*, 19 January 1927, *PT Papers*, fl. 52.

[62] G.D. Birla in *LAD*, Vol. II, 8 March 1927, p. 1859.

Indian agricultural and industrial labour, even if some of them were able to benefit by holding on to their wages, *through a struggle*, while prices fell due to a higher ratio, on the whole they would suffer because of increasing unemployment caused by the negative impact of the higher ratio on the industrial and agricultural employers.[63]

In any case, it was argued that the principle of accepting a ratio because it was the de facto rate was "not per-se entitled to the slightest weight". The "ratio of the future" was to be decided "on weightier considerations".[64] It is these "considerations" that the capitalists emphasized repeatedly that will be enumerated below. The "consideration" that the capitalists highlighted the most was the negative impact of a high ratio on the preponderant majority of the people of India—the agriculturists.

IIc. Impact on Agriculture

A higher ratio, i.e., 1s 6d instead of 1s 4d to the rupee, it was argued, would severely hit the agriculturist by automatically reducing the amount of rupees he received from each unit of exports by 12.5 per cent. This was because the price of the agriculturist's exports in the international market was "very largely dependent on their international gold value", i.e., it was governed by world prices in a competitive world market. The Indian producer with very little holding power was unable to determine the international prices which he had to accept more or less as given. Therefore, "it necessarily follow[ed] that if Gold value of the Rupee were fixed at 1s 6d, the number of rupees received by the Indian exporter would... be less than if the gold value of the Rupee were fixed at 1s 4d".[65] If the Indian cultivator did not accept the thus reduced remuneration for his exports, he would be threatened with the loss of the competitive world market.[66]

It was also pointed out that the export prices of cotton, oilseeds, jute, etc., were already falling and an additional decrease by 12.5 per cent through a higher ratio would amount to a "regularised loot of the grower of India".[67] Further, it was said that "as internal prices are largely dependent

[63] "Battle of the Ratios", Indian Currency League (Pamphlet), pp. 19–20; Purshotamdas's speech, 10 November 1926; and IMC to Finance Dept., GOI, 17 August 1926, *PT Papers*, fl. 62.

[64] Thakurdas, "Minute of Dissent", p. 439.

[65] In other words, for a unit of commodity which fetched according to existing international prices £1, the Indian producer received Rs 15 if the ratio was 1s 4d while he received only Rs 13.5 with the higher ratio of 1s 6d. See the statement of the Bombay Millowners' Association (BMOA) in *Curr. Com., 1926, Evidence*, p. 209; B.F. Madon in *IICC, AR*, 1926, p. 33ff.; and his notes on Finance Member Blackett's speech, *PT Papers*, fl. 44.

[66] Thakurdas, "Minute of Dissent", p. 440.

[67] "Battle of the Ratios", Indian Currency League, Pamphlet, pp. 11–12. See also B.N. Ganguli, "Devaluation of the Rupee" in R.K. Mukherjee and H.L. Dey, eds, *Economic Problems of Modern India*, Vol. II, London, 1941, pp. 281–82.

upon export prices... the number of rupees received by the agricultural population of India" for goods sold internally "would be considerably less" with a higher rate.[68]

Purshotamdas in his minute of dissent to the report of the Hilton Young Commission further argued that the maintenance of the level of exports did not indicate the suitability of the existing ratio, as claimed by the government, but reflected the low holding power of the Indian agriculturist who was forced to sell even at the current unremunerative prices. The fact that the exports were primarily agricultural raw materials and crops once grown "have to be sold before the next harvest", contributed to this.[69] In addition, the massive deflation resorted to by the government in an effort to maintain the ratio led to money becoming "unavailable for the purposes of legitimate internal credit, with the result that the cultivator was in a worse position than ever in regard to financing himself and had to sell his produce for notoriously unremunerative prices".[70] In any case, as Purshotamdas asserted a little later, the level of exports was not in fact maintained at that of 1924–25 (when 1s 4d was passed over for a higher ratio) but recorded a sharp decline of about 18 per cent within four years, i.e., by 1927–28.[71]

One may point out here that the capitalists appear to have made an advance over the comprehensive analysis of the currency question made by the early nationalists who seem to have omitted to highlight this aspect of the agricultural producer receiving less rupees for his exports as a result of a high exchange and his income on this count suffering heavily.[72]

The capitalists further argued that the agricultural producer who lost in income because of a high ratio by receiving less rupees for his produce was not compensated by the cheapening of imports. This was because "the proportion of imports which [was] consumed by the masses of India" was very low, estimates varying between 7 to 40 per cent, with B.F. Madon's estimate being about 10 per cent.[73] With high exchange, therefore, while the agricultural producer got less, the beneficiaries of the cheapening of imports were the upper classes and the salary earners.[74] B.F. Madon gave the following provocative example to make this point:[75]

[68] Statement of the BMOA, *Curr. Com., 1926, Evidence*, p. 209.

[69] Thakurdas, "Minute of Dissent", p. 453.

[70] Purshotamdas Thakurdas, "The Effects of 1s 6d Ratio", *Capital*, 20 September 1938 in *PT Papers*, press clippings, fl. No. 11; and Purshotamdas's speech, 10 November 1926, *PT Papers*, fl. 62.

[71] *Capital*, 20 September 1928, in *PT Papers*, press clippings, fl. 11.

[72] See Chandra, *Rise and Growth of Economic Nationalism*, Chapter 7.

[73] Thakurdas, "Minute of Dissent", pp. 440–41; and *IICC, AR*, 1926, pp. 33ff.

[74] B.F. Madon's address to the Indian Economic Conference, 1 January 1921, *PT Papers*, fl. 44.

[75] Note on Finance Member's speech, *PT Papers*, fl. 44.

Suppose a lot of cotton was sent to Europe for sale and fetched £1,000. My honourable friend here (referring to the Finance Member Basil Blackett) has, let us suppose, ordered a Rolls Royce which also costs £1,000. If exchange was at 1s 4d the owner of the cotton would receive Rs 15,000 and my honourable friend would pay Rs 15,000 for his car. At 1s 6d the owner of the cotton would get only Rs 13,000 while my honourable friend would have paid only Rs 13,000, i.e., saved Rs 2,000.

As an aside it is important to note here that the Indian capitalists on the whole did not represent or argue for the importing interests within their ranks. There were some individual businessmen such as Jadunath Roy of Bengal National Chamber of Commerce and A.C. Khosla of Delhi Hindustani Merchant Association who, at the Indian Industrial and Commercial Congress, opposed the resolution which condemned the 1s 6d ratio and demanded a lower ratio. They argued that a lower ratio would affect importers adversely. The Congress however passed the resolution comfortably with people like B.F. Madon, G.D. Birla and Purshotamdas speaking in its defence. Purshotamdas in his speech "sympathized" with the importers who would suffer due to a lower ratio but asserted that what was at stake was the "larger good of the entire country" and not only of importers and that it was "humiliating" for any one section to ask the Congress to take care only of them.[76] The capitalists were aware that their overall interests could not be delinked from the prosperity of the mass of people. In a speech on 10 November 1926, Purshotamdas gave his "grateful thanks" to Sir Victor Sassoon for opposing the higher ratio, "though he stands to gain most [by it] in his individual capacity", and coming forward "to champion the cause of the Indian agriculturist realising that *in his prosperity is bound up the prosperity of the manufacturers, trader and all classes of people*".[77]

The other major impact on the agriculturist of a high exchange rate which was highlighted was the raising of the value of their fixed commitments such as debt, interest payments, rent and land revenue by 12.5 per cent.[78] G.D. Birla succinctly described how the agriculturist suffered through a high exchange both in the short and the long run: "Before the prices are adjusted [to the higher exchange] we have one kind of suffering...the foreign importer is encouraged to the disadvantage of the native exporter [and thus the agricultural producer who receives fewer rupees]

[76] *IICC, AR*, 1926, p. 52.

[77] *PT Papers*, fl. 62, emphasis mine.

[78] *IICC, AR*, 1926, pp. 33ff and 52ff; Purshotamdas in *LAD*, Vol. II, 8 March 1927, p. 1885; IMC to GOI, Fin. Dept., 11 August 1926, *PT Papers*, fl. 62; and Statement of BMOA in *Curr. Com., 1926, Evidence*, p. 209.

and when the prices are adjusted [by a fall] the debtor, the tax payer begins to lose to the advantage of the creditor [and] the Government", as the fixed cash commitments would now be equivalent to a greater amount of commodities.[79]

Among debtors, it was argued, the agricultural debtor was the most significant. The famous Punjab civil servant, M.L. Darling, was cited to show that the total agricultural debt including the princely states was about Rs 8,000 million, a debt contracted largely over a period when the exchange rate was 1s 4d.[80] The moral "justifiability of imposing an additional burden on a class already overburdened" was questioned.[81] And Darling's opinion that, "in benefitting the consumer, the importer and the creditor at the expense of the producer, the exporter", the 1s 6d rate "is likely to operate to the disadvantage of the agricultural community, that is to say, to the disadvantage of the majority of this country", was quoted to strengthen the argument in favour of 1s 4d.[82]

The government was also accused of raising the real value of the land revenue through a higher exchange rate. It was pointed out that even the Chairman of the Currency Commission, Hilton Young, admitted that if 1s 6d were adopted the land tax would increase unless it was reduced by 12.5 per cent.[83] Further, it was said that the agriculturists' savings, which were mainly in silver (bullion or ornaments) would depreciate by 12.5 per cent owing to the higher ratio.[84] The government, argued G.D. Birla, was with "a stroke of the pen...increasing the capitalists' capital to the disadvantage of the agriculturist, the tax payer, the debtor and so on".[85] While a narrow "middle and upper class" section such as the creditors and importers would benefit by a high exchange, the vast majority who were debtors, tax payers and producers for export would lose. Even industrial and agricultural labour would lose, facing unemployment because of the negative impact of the high exchange rate on industrial and agricultural employers.[86]

[79] *LAD*, Vol. II, 8 March 1927, p. 1859. The noted economist B.N. Ganguli argued much the same point by reversing the argument saying that depreciating the currency will act as a bounty on exports and after internal costs and prices adjust to the exchange depreciation there is a permanent advantage to the extent that certain costs such as long-term interest and rent charges and taxes "which form important elements of cost in Indian agriculture and are fixed in terms of money fail to rise". See Ganguli, "Devaluation of the Rupee", p. 286.

[80] Thakurdas, "Minute of Dissent", p. 452.

[81] *Ibid.*, pp. 455–56.

[82] G.D. Birla in *LAD*, Vol. II, 8 March 1927, p. 1856.

[83] *Ibid.*, p. 1859.

[84] "The Battle of the Ratios", Indian Currency League, Pamphlet, p. 12.

[85] *LAD*, Vol. II, 8 March 1927, p. 1859.

[86] IMC to GOI, Finance Dept., 17 August 1926, *PT Papers*, fl. 62. See also p. 128 and fn. 63 in this volume.

IId. Impact on Government Finance

Another major argument put forward by the government in favour of a high exchange rate was that it reduced the burden of India's sterling obligations and eased the revenue situation of the Government of India, enabling it to meet the necessary remittance without additional taxation. The sharp criticism of this position made by the capitalists was reminiscent of Dadabhai Naoroji's brilliant critique of a similar argument in the late nineteenth century.

Madon questioned the view that, as a given amount of rupees at a higher exchange rate would fetch a larger amount of sterling, it would reduce the burden of sterling indebtedness. He pointed out that India did not pay for its sterling indebtedness in rupees but through commodity exports. If India had to "pay £1,000 it must ship as much produce as will fetch £1,000 in overseas market...and whether the exchange for the rupee is 16d or 18d" was irrelevant.[87] It made no difference to the quantity of sterling obligations and the amount of produce necessary to meet it whether the exchange rate of the rupee was 1s 4d or 1s 6d.[88]

As for the argument that the Government of India's *revenue* situation would be eased with a higher exchange rate as now the government would have to raise fewer rupees to meet the same remittance, the capitalists had a complex answer though not articulated clearly in one place. First, it was said that, before adjustment to the high exchange occurred, the government *would* save about 12.5 per cent in the rupees required to meet the sterling remittance, if the rupee was pushed up to 1s 6d from 1s 4d. But the saving to the exchequer did not "fall from the heavens", being at the cost of the producer, the peasant who received 12.5 per cent less in rupees for the exports made to procure remittance, i.e., the remitters of funds, whether government or private, benefitted while the producer, "the tiller of the soil", lost.[89] Second, once the prices adjusted to the higher exchange by a fall, the real or commodity value of the tax in rupees was raised by the same proportion as the saving to the government revenues. In other words, as argued above, the produce procured to meet remittance remained the same whether it was done by collecting more rupees of a lower value (as taxes) or by fewer rupees of a higher value, i.e., whether it was done by

[87] B.F. Madon's Note on Blackett's Speech, 1925, *PT Papers*, fl. 44.

[88] Dadabhai Naoroji had pointed out that home charges or the sterling obligations would be reduced only if gold prices fell, i.e., less produce could procure the same amount of gold or sterling. In other words, the quantities required to be exported to meet the necessary remittance was "determined by their gold prices in foreign markets and not by their rupee prices in India". See Chandra, *Rise and Growth of Economic Nationalism*, p. 294.

[89] B.F. Madon, Paper read at Indian Economic Conference, Allahabad, 1921, *PT Papers*, fl. 44; Thakurdas, "Minute of Dissent", p. 450. Statement of IMC in *Curr. Com., 1926, Evidence*, p. 208.

collecting a given amount of rupees on the basis of the existing tax or by collecting fewer *appreciated* rupees which, given its enhanced value, had the same commodity value as the existing tax.[90]

Moreover, Purshotamdas in his note of dissent pointed out that the "alleged gain from 1s 6d... in the General Budget" would be neutralized by a loss on several counts. Customs receipts would fall automatically to the extent of the cheapening of imports. Imports themselves would tend to decline due to the cut in the purchasing power of the agricultural masses as a result of the high exchange and thus further affect customs revenue. Finally, income tax and corporation tax would fall with the disturbance to industry caused by a high exchange. The loss on this count would not be insubstantial as joint stock companies paid about 15 per cent of their profits as income and corporation tax.[91]

IIe. Impact on Industry

We come now to the question of the impact on industry of the higher 1s 6d ratio. First, it was argued that "until adjustment is complete, a 1s 6d ratio presents the foreign manufacturer with an effective though indirect bounty of $12\frac{1}{2}$ per cent which will place a heavy strain on Indian industries nascent and established...".[92] The diminished competitiveness vis-à-vis "foreign countries, especially those with depreciated currencies like Japan, France, Belgium and Italy" was, it was said, leading Indian industries to ruin, except "monopolistic industries like jute and tea" and to some extent cement due to "exceptional causes".[93] The cotton textile industry was particularly badly hit owing to the artificial propping up of the exchange and all that the government did to compensate for this was to allow a 5 per cent duty on imports of foreign yarn—not accepting the recommendations of the majority report of the Tariff Board.[94] It was asserted forcefully that in fact "whatever protection the local industries obtained due to higher duties imposed during and after the war for revenue purposes... [was] neutralised or reduced by the higher exchange".[95]

Second, even a 12.5 per cent increase in protection would not fully counteract the disadvantages of a high exchange to industries like the textile industry. This was because the purchasing power of the agriculturist would fall as he would receive less rupees for his export till adjustment

[90] P.M. Dalal, Exchange, Finance and Bullion Broker in *Curr. Com., 1926, Evidence*, pp. 203–4; G.D. Birla in *LAD*, Vol. II, 8 March 1927, pp. 1855–56.

[91] Thakurdas, "Minute of Dissent", pp. 449–50.

[92] *Ibid.*, p. 449.

[93] Purshotamdas in *Capital*, 20 September 1928, *PT Papers*, press clippings, fl. 11; P.M. Dalal, *Curr. Com., 1926, Evidence*, p. 202.

[94] Dinshaw Petit, President of the Federation in FICCI, *AR*, 1927, pp. 7ff.

[95] Indian Chamber of Commerce, Calcutta, in *Curr. Com., 1926, Evidence*, p. 289.

occurred and his fixed costs such as land revenue, debt and interest charges would rise after adjustment, leading to a reduction in the demand for cloth.[96] Even though the cotton millowners had to pay 12.5 per cent less with the 1s 6d rate for (raw) cotton imports (cotton constituting 60 per cent of the total expenditure including wages and stores), they were still opposed to the higher exchange rate because it hit their internal market by decreasing the purchasing power of their main customer for cloth—"the Indian cultivator, the Indian masses".[97]

In another place later it was argued that "a depreciation in the ratio...is in itself a *more equitable form of tariff* in so far as it is both a bounty to the agriculturist and a protection to the industrialist". It could even enable a "reduction in tariffs at any rate by the amount of depreciation".[98] In other words, the capitalists saw a low exchange rate as advantageous to industry, even if a corresponding cut in tariffs neutralized the protection effect, because of the positive impact a low exchange would have on the income of the agriculturist and thus on the purchasing power of the bulk of the population.

Third, not only would the internal market of the textile industry be affected by the higher exchange but even the export market would be severely hit as "the cost of producing a given quality of yarn or cloth in terms of Gold, which was the standard by which world prices were measured, would be correspondingly increased".[99]

Fourth, a high exchange rate would increase the costs of industry by increasing real wages, as wages tend to be sticky and would not fall corresponding to the fall in prices which would occur as the prices got adjusted to the higher exchange. As the Indian Merchants Chamber put it, "the wage earner most stubbornly oppose[s] any reduction and refuses to listen to any argument about lower prices of commodities".[100] Besides, while the price of labour could not easily be reduced, "the cost of power, depreciation, interest charges, rates, taxes and insurance [would] remain the same or be increased".[101]

Fifth, a high exchange would almost inevitably lead to industrial disputes as wages would not adjust to a fall without a "struggle", causing serious disturbance to industry.[102] Even government officials were said to have predicted that a higher ratio was likely to lead to a spate of industrial disputes and strikes.[103]

[96] Statement of BMOA in *Curr. Com., 1926, Evidence*, p. 209.

[97] Thakurdas in *LAD*, Vol. II, 7 March 1927, p. 1800.

[98] Memorandum on the Rupee–Sterling Ratio, 19 September 1933, enclosure to G.D. Birla to Purshotamdas, 20 October 1933, *PT Papers*, fl. 145.

[99] BMOA in *Curr. Com., 1926, Evidence*, p. 209.

[100] IMC to GOI, Fin. Dept., 17 August 1926, *PT Papers*, fl. 62.

[101] BMOA, *Curr. Com., 1926, Evidence*, p. 209.

[102] Thakurdas, "Minute of Dissent", p. 448.

[103] Purshotamdas in *Capital*, 20 September 1928, *PT Papers*, press clippings, fl. 11.

Sixth, the resorting to deflation of Indian currency, since the 1920s, in order to prop up the exchange and maintain it at a high rate, was said to have led to serious consequences for industry. Money supply was contracted to such an extent that scarcity of money was felt for conducting even day-to-day business by traders and industrialists. Traders were forced to "liquidate stocks as rapidly as possible" and the manufacturers had "to sell at any price in order to get liquid resources".[104] Bank rates "ruled as high as 6 to 8 per cent and the monetary stringency experienced by trade and industry was paralleled only by what they had to go through in the nineties before 1s 4d came to be stabilized".[105] Further, government borrowing at high rates (another method of reducing money supply) drained the money market of investment funds and, in the words of a broker, made it "exceedingly difficult for industrial concerns to raise money either by way of debentures or preference shares", causing "a serious check to industrial expansion".[106]

Seventh, a rising exchange rate encouraged repatriation or flight of capital from India, thus reducing the capital available in the market. It made "foreign remittances remunerative" and "encourage[d] transfer of rupee capital to sterling or other currency in the hope of reconverting the same rupee at the time of falling rupee or in permanent investment in foreign countries".[107] A larger proportion of India's balance of trade surplus was thus wasted through remittances of profits, dividends, etc., to maximize which the European commercial community in India solidly backed a high exchange rate.[108]

Last, to bring home the impact of the 18d ratio on Indian business, Purshotamdas cited evidence from the returns of the Registrar of Joint Stock Companies. The aggregate authorized capital of companies registered in 1913–14 was Rs 670 million, it was down to 344.10 million in 1922–23, 212.30 million in 1924–25 and 141.70 million in 1927–28 (11 months). This while the total of Ordinary and Preference capital issued in Great Britain increased from £56 million to £126 million between 1913 and 1927.[109]

The capitalists were to continue arguing for a lower exchange rate throughout the 1930s. The onset of the Depression and the consequent drastic fall in prices considerably strengthened the capitalists' critique of a high exchange rate. The critique of a higher rate broadly remained within the parameters discussed above, though in the inter-war years certain new grievances such as the rapid fall in government investments were also raised.[110]

[104] Madon's note to Purshotamdas, 21 July 1944, *PT Papers*, fl. 44.
[105] Birla, *Indian Currency*, p. 16; and Thakurdas, "Minute of Dissent", p. 436.
[106] P.M. Dalal, *Curr. Com., 1926, Evidence*, p. 205.
[107] BNCC in *Curr. Com., 1926, Evidence*, p. 337.
[108] B.F. Madon to Purshotamdas, 5 and 7 March 1925, *PT Papers*, fl. 44.
[109] *Capital*, 20 September 1928, *PT Papers*, press clippings, fl. 11.
[110] See Chapter 4 in this volume for details.

Before going on to the issues of the 1930s, an aside, which involves a chronological jump, may be in order here. Perhaps the first time since the late nineteenth century that the capitalists did not demand a devaluation of the rupee, and wanted it to be maintained at 1s 6d, was after the Second World War, at the threshold of independence. This, they argued, was because the conditions had in several ways "changed radically" during the course of the war.[111] First, India was transformed from a debtor to a creditor country, with Britain owing India a huge sterling balance. India therefore no longer needed to "artificially bolster...up her export trade" by lowering her exchange "in order to balance her payments of heavy home charges and interest on foreign capital". Second, "in the existing [post-war] circumstances of world wide scarcity and prevalence of the sellers market...the consequences habitually associated with currency manipulation [were] not likely to take place. It [was] likely therefore that instead of actually increasing the volume of external trade any depreciation may result in the shrinkage in the value of our exports." Third, India now needed for her own internal consumption as well as for meeting the requirements of her proposed industrial development plans many of her exportable primary products. The policy of subsidising exports through devaluation, therefore, would now have to be reviewed. Fourth, India at this stage needed to make large imports of capital goods, strategic raw materials, technical skills, etc., both to replenish the overworked industries during the war and to set up new enterprise in line with her plan of rapid economic development. "Any devaluation of the Rupee" in such a situation would add "to the heavy cost involved in these items and our industrial development [would] suffer to that extent". Last, the country was faced with unprecedented inflation and scarcity of goods. Lowering of the exchange now would lead to an increase in the cost of imported goods and also raise indigenous prices, "perpetuating the conditions of scarcity and high prices...".

III. The Gold Standard

Another major question regarding the currency system adopted by the Government of India which the Indian capitalists took up in the period before the onset of the Great Depression related to the demand for the establishment of an effective Gold Standard with gold currency in India, instead of the existing Gold Exchange Standard.[112] The main argument

[111] The arguments in the rest of the paragraph are taken from the following sources: FICCI (Fed.) to GOI, Fin. Dept., 31 October 1946; FICCI, *Corresp.*, 1946, pp. 123–27; FICCI, *Proc. of EC*, 1946, p. 33; and K.D. Jalan, President, ICC (Cal.), 2nd Quarterly meeting, 14 November 1946, *WH Papers*, fl. 70.

[112] Resolution passed by *IICC AR*, 1926, p. 33.

given by the capitalists in support of the demand was that this would prevent the government from manipulating the Indian currency system to its own advantage as well as for the benefit of the London money and bullion markets. The existing Gold Exchange Standard, it was said, enabled the government to resort to such manipulation most blatantly.[113]

In the Gold Exchange Standard system, India's gold reserves were kept in London and there was no free coinage of gold in India. There was instead a token silver currency with a specific gold exchange value which was used for international purposes.[114] The Gold Reserves of India were kept in London under the Paper Currency Reserve and the Gold Standard Reserve. "Both these Gold Reserves against our note issue [paper as well as silver currency]", argued B.F. Madon, "were regarded merely as a fund from which the Government of India and the Secretary of State were to meet their sterling obligations", such as the remittance on account of home charges.[115] Remittance was normally effected by the Secretary of State selling Council Bills to the Government of India in return for sterling. The Government of India in turn acquired the sterling from the country's balance of trade surplus using a proportion of its rupee revenue earmarked in the budget as "expenditures abroad". However, when India's balance of trade surplus was not able to meet the sterling obligations fully, the Secretary of State issued Reverse Council Bills, which meant withdrawing rupees from India to the extent that India's Gold Reserves held in London were used to meet the shortfall in sterling remittance.[116]

It was this overall system under the Gold Exchange Standard that the capitalists accused the government of manipulating in several ways, at great cost to India. First, "the rates of Council Bills were so adjusted as to divert all Gold from India to London", to be held in Reserves in London.[117]

Second, Council Bills were sold far in excess of the amount of sterling necessary for the Government of India to cover the Secretary of State's requirements to meet the home charges. This surplus which for all practical purposes was "frozen" and was of little use to the domestic Indian economy was "then lent out at very cheap rates to the London money market and benefited that market at the expense of India...". India's earnings of gold through the surplus of her favourable balance of trade over the sterling remittance requirements was in this way not allowed to come to

[113] IMC, *Curr. Com., 1926, Evidence*, p. 196.

[114] See ICC (Cal.), *Curr. Com., 1926, Evidence*, p. 284.

[115] B.F. Madon, *Curr. Com., 1926, Evidence*, p. 148; and India Office Memo., 8 December 1930, L/F/5/191.

[116] *Ibid*. The whole question of the mechanism of remittance from India to Britain is discussed with great clarity in Sunanda Sen, "Trade as a Handmaiden of Colonialism: India between the late Nineteenth Century and the First World War", *SIH*, Vol. 4.1, 1982, pp. 89, 98–99, 136.

[117] B.F. Madon, *Curr. Com., 1926, Evidence*, p. 148.

India and expand her currency, by traders tendering the gold to the currency authorities in India in return for rupees. Instead, "under the Indian System in vogue [the Gold Exchange Standard] no actual transfer of specie [took] place but India [was] paid by her own token coin" against sterling handed over in London to the Secretary of State. India was thus deprived of the opportunity of using its considerable net export surplus to import bullion, add to its currency reserves, and as a result expand her currency and ease the money market. This withdrawal of funds through the over-sales of Council Bills therefore contributed to the stringency in the money market and the appreciation of the rupee.[118]

Third, Reverse Council Bills were issued to meet shortfalls in remittance, withdrawing rupees from India and dissipating India's gold reserves held in London. This was yet another mechanism of deflating rupee supply in India to shore up the exchange.[119] Further, it was pointed out how double standards were applied on this question. While India's currency reserves were "allowed to be raided between 1920 and 1924 for meeting India's payments in England, England's Currency Reserves were not only very carefully conserved, but were even very largely added to at great sacrifice" at a time when England "[stood] in the same position to America that India [did] to England".[120]

Fourth, since silver was the token currency in India under Gold Exchange Standard, the government used this as a pretext to push up the rupee along with the rise in price of silver (as happened particularly between 1917–20), ignoring the fact that the rupee was meant to be fixed to gold and not silver under the existing system.[121]

Lastly, the IMC in a letter to the Finance Department on 17 August 1926 expressed serious apprehension at the recommendations of the Hilton Young Commission that the currency authorities would give those who offer local currency to be exchanged for gold, not gold bullion but "an equivalent amount of gold exchange payable in a country or countries outside India maintaining a free gold market". This, the Chamber argued, was effectively expanding the Gold Exchange Standard system, as now it involved not only holding of sterling securities but the "securities of [or the currencies of] all such other countries", thereby increasing the "risks to

[118] For the arguments in this para see the statements of the IMC, ICC (Cal.) and B.F. Madon, *Curr. Com., 1926, Evidence*, pp. 148–49, 196, 284. Madon had some differences with the above line of reasoning though he agreed that the excess Council Bills had the same impact because they were treated as additional remittances by the Secretary of State and no fresh currency came out of the currency office on this count. See also Sen, "Trade as a Handmaiden of Colonialism", for a general discussion of this whole question.

[119] Thakurdas, "Minute of Dissent", p. 435; and speech, 11 November 1921, *PT Papers*, fl. 62.

[120] B.F. Madon, *Curr. Com., 1926, Evidence*, p. 164.

[121] *Ibid.* pp. 150, 157; IMC and ICC (Cal.) *Curr. Com., 1926, Evidence*, pp. 196 and 293; and Birla, *Indian Currency*, p. 10.

which India's currency Reserves were exposed". The government thus "lay themselves open to the charge of the Gold Reserves of India being allowed to be exploited not only for the benefit of England as in the pre-war exchange standard, but for the benefit of the various countries of Europe made more or less bankrupt by the world war".[122]

It is in the above context that the Indian capitalists made a set of demands, including the demand for a Gold Standard with coinage of gold currency in India.[123]

The establishing of the Gold Standard, it was said, would lead to the "automatic working" of the currency system and the intervention of the currency authorities necessary to run the Gold Exchange Standard could be dispensed with. The money supply and exchange rate would now be stable (vis-à-vis other Gold Standard countries) and would respond to the requirements of trade and world conditions and not be subjected to the "capricious attempts" by the currency authorities "at expansion and contraction of circulating medium accompanied by a continual see-saw of exchange movements...".[124] The rupee would "possess a constant relation to the only universally recognised measure of value"—gold, and not be "raised or lowered practically at the will of the Finance Member of the Government of India".[125] It was in fact to "prevent future manipulation by Government" that G.D. Birla argued in the Legislative Assembly that "we must have nothing short of a Gold Standard and a Gold currency".[126]

To the question whether the time was ripe for a shift to the Gold Standard, it was said that "for the past two years India has been even more ripe for a reversion to the Gold Standard than any of the Dominions or even England, as it is perhaps the only country after America whose balance of trade has given it command of very large amounts of gold".[127]

Further, it was argued that, with the adoption of a Gold Standard with gold currency, "the last semblance of any valid reason for maintaining any portion of the Indian reserves in London disappears. Under the Gold Exchange Standard system, the argument was put forward that to meet even the remote contingency of having to draw Reverse Councils [to meet a situation where India's export surplus did not fully cover the remittance requirements], it was desirable to maintain a reserve in London, either in Gold or in foreign currency. But under the Gold Standard System, such a

[122] *PT Papers*, fl. 62.

[123] See, for example, Resolutions in *IICC, AR*, 1926, p. 33; and FICCI, *AR*, 1930.

[124] ICC (Cal.) and B.F. Madon, *Curr. Com., 1926, Evidence*, pp. 285–86 and 168 respectively. The Gold Standard was also seen as the best method of stabilizing prices in relation to world prices, as opposed to the artificial altering of prices through currency manipulation. Madon, *Ibid*.

[125] Millowners' Association, Bombay, *Curr. Com., 1926, Evidence*, p. 208.

[126] *LAD*, Vol. 1, 25 January 1927, p. 75.

[127] B.F. Madon, *Curr. Com., 1926, Evidence*, p. 168.

contingency can be met by actual export of Gold". In any case, as "the balance of trade is seldom against India, there can be no justification for keeping any portion of our reserves outside India".[128] The capitalists were very clear, as the IICC in a resolution in 1926 clearly stated, that "all Reserves should be located entirely in India, all future accretions to the reserves should be in the form of Gold".[129] India's gold resources would thus be preserved and not be "played with, and converted into silver rupees on some pretext or other".[130]

The capitalists also demanded that, along with the introduction of the Gold Standard, the remittance operations of the Government of India for the home charges should be handed over to the Imperial Bank.[131] "Once the budgeted amount is remitted to London by the Bank, the Bank should stop making remittances on Government account and leave the balance of trade to be adjusted by the trade, when the balance is favourable by importing gold and tendering [it] to the currency offices, or taking gold from the currency offices and exporting it if the same is unfavourable."[132] The problem of oversales of Council drafts would thus not occur and India would reap the full benefit of her net export surplus. It was further said that under no circumstances were the currency reserves to be used by the Secretary of State to meet the deficiency in remittance. Such a deficiency should be met either "by cancelling or postponing commitments" or, if necessary, through short-term borrowings in London, as resorted to by merchants.[133]

Along with the adoption of the Gold Standard, the capitalists argued that gold currency should be introduced in India. India should have her own open mint "with unrestricted rights of importing gold... no artificial check as is possible under the Gold Exchange Standard or any other managed system should be permitted".[134] Providing for gold coming direct to India for the purpose of minting gold currency here was thought to be necessary to prevent the "manipulation" of Indian currency and her Gold Reserves, held in London now, "by some future government".[135] The fixed value of the rupee, it was suggested, was to be on the basis of 1s 4d, i.e., at 7.5334 grains of gold to the rupee. "A low gold rupee value" would make "for an easier adoption of the Gold Standard than a higher gold value". Besides, a higher gold value, such as the 2s gold rate that was put on the

[128] ICC (Cal.), *Curr. Com., 1926, Evidence*, p. 291.
[129] *IICC, AR*, p. 33.
[130] P.M. Dalal, *Curr. Com., 1926, Evidence*, p. 205.
[131] P.M. Dalal, Millowners' Association, Bombay and B.F. Madon in *Curr. Com., 1926, Evidence*, pp. 206, 207 and 167 respectively.
[132] Dalal, *Ibid*.
[133] B.F. Madon and ICC (Cal.), *Curr. Com., 1926, Evidence*, pp. 167 and 291.
[134] ICC (Cal.), *Curr. Com., 1926, Evidence*, p. 287.
[135] B.F. Madon and P.M. Dalal, *Curr. Com., 1926, Evidence*, p. 157 and 205.

statute book by the Government of India, "made it impossible for the public to tender Gold to Government and obtain Indian currency" (as that much more gold would have to be given in for the same rupee), closing a "fruitful channel of automatic expansion of currency…to the public".[136]

Regarding the apprehensions voiced by the Hilton Young Commission as well as by the Secretary of State that, if India adopted a Gold Standard and introduced gold currency, then "there would be a great scramble for gold in the world market and commodity prices would fall and trade and industries in the world would suffer", several arguments were given by the capitalists to disabuse this notion and show that no "alarming depletion of gold stocks of the world" would occur.[137] More important, as yet another instance of national self-assertion, it was strongly argued that in any case

> India must have the right of her economic self determination. If she sells to other countries more than she buys from them, she has a right to be paid the balance in the form of Gold… and she has a right to use that gold either for currency purposes or for art [probably meaning ornaments], as she chooses. If it is intended to prevent the flow of gold to India, which is due to her, it is open to other countries to attract Indian capital abroad by offering tempting rates of investment.

If the "Genoa Conference preferred a form of Gold Exchange Standard to Gold Standard", it must be made clear "that India has had painful experience of the former and needs the regime of a pure currency system in which there can be no possibility of a loophole for manipulation by government". However, if "several countries came together including England, United States, etc., to confer about the adoption of the Gold Exchange Standard by them all", then India should be "invited to the conference as a *separate unit*" where she would be prepared to take joint action for the benefit of the world based on her "experience of a pure currency system obtained in the meantime".[138] Similarly, Purshotamdas in his dissent to the Hilton Young Commission said that, "if at any stage an international agreement be framed for the economical distribution of the world's Gold supplies" (though no such cooperation was assured or within sight given the fact that each country was "pursuing its individualist national policy"),

[136] ICC (Cal.), *Curr. Com., 1926, Evidence*, p. 288.

[137] See, for example, *Ibid.*, p. 289. During the discussions regarding the proposal to set up a Reserve Bank in India, the Secretary of State used more or less the same arguments as that of the Hilton Young Commission to insist that he would agree to the proposal only on condition that following the recommendations of the Royal Commission *no gold currency would be introduced in India*. See Memorandum on Controversy between the Secretary of State and the Government of India on the Reserve Bank Bill, 5 November 1927, *L/PO*/316, IOR.

[138] ICC (Cal.), *Curr. Com., 1926, Evidence*, pp. 289–90.

then India too "would be prepared to exercise self denial in her gold requirements in proportion to that of other countries whose currency reserves were parallel to her own".[139] But "until that time arrives there can be no justification in depriving this country merely because of her political weakness from adopting a sound system of currency".[140]

It is significant that in answer to the questions put by the Hilton Young Commission regarding the effects of a rising or falling rupee and of a high or low rupee on trade, industry, agriculture and national finance, and the suggested rates at which the rupee was to be stabilized, most of the Indian chambers and individual Indian capitalists replied that these questions did not really arise, once their basic demand for a Gold Standard was accepted. They argued that it was precisely because they were opposed to the rupee being tampered with on any of the above grounds that they wanted the Gold Standard and the rupee stabilized in relation to gold on the 1s 4d basis.[141]

However, Purshotamdas while sympathizing with the views of those who attached "first and primary importance to the question of the standard" insisted that more urgent importance be given to the question of the ratio. He argued that the 1s 6d ratio and the government manipulations to maintain it were hitting at the very preconditions of a Gold Standard by dissipating the gold resources of the country. "Our aim", he said, "should be to prevent the dissipation of our gold reserves and to ensure by statute free inflow of gold into India (so) that in the course (of) five to seven years we may have adequate gold reserves to justify the legislature in asking for gold currency".[142]

While Purshotamdas focused on the question of the ratio, he of course had no doubt that India needed a Gold Standard and that only such a standard would bring in a stable ratio. He proclaimed in the Legislative Assembly in 1927: "Gold Standard and gold currency are after all India's birthright. We shall have it out of the Government of India, if not now, within five or ten years. That is not a gift we are looking forward to.... Until we can have or until we take from them a Gold Standard and gold currency", the India Office and the Government of India would be "slowly giving us promotions from 1s 4d to 1s 6d, 1s 6d to 1s 8d, then 1s 10d and then 2s".[143]

[139] Thakurdas, "Minute of Dissent", p. 432.

[140] ICC (Cal.), *Curr. Com., 1926, Evidence*, p. 290.

[141] See, for example, B.F. Madon, IMC (Bombay), ICC (Cal.) in *Curr. Com., 1926 Evidence*, pp. 168–69, 198 and 287–88 respectively.

[142] Speech, 11 November 1926, *PT Papers*, fl. 62. See also Thakurdas, "Minute of Dissent", p. 457.

[143] *LAD*, Vol. II, 7 March 1927, pp. 1806–7.

FOUR

Finance and Monetary Policy II: 1929–39

I. The Depression

With the onset of the Depression years the situation in India changed drastically and many of the fears that the capitalists had been expressing in the previous years now acquired much greater urgency. World prices, especially those of primary produce, plummeted and India's export earnings collapsed. With agricultural prices so low (in Punjab wheat was selling at less than one-third of its normal pre-war value), the government was unable to collect full revenue.[1] Also with the fall in export earnings there was great difficulty in securing remittance to meet India's sterling obligations or the home charges amounting to about £35 million per year.[2] With both revenue and remittance in jeopardy the colonial government was in the throes of a major financial crisis.

India's Gold Reserves were once again commandeered but that there were political and economic limits to the expedient of drawing on the currency reserves to meet remittance was evident.[3] The other alternative of resorting to sterling loans in London also got exhausted, as could be judged from the failure of the sterling loan in 1931.[4] Under continuous pressure from London,[5] the Government of India sought to ease remittance by ultimately resorting to severe deflation, contracting currency

[1] Schuster, Finance Member to Irwin, Viceroy, 1 June 1931, *L/PO/*269, IOR, London.

[2] *Ibid.*

[3] *Ibid.*

[4] *Ibid.*

[5] George Schuster, the Finance Member, wrote to Irwin on 1 June 1931: "We have been getting the usual telegrams from London trying to force us to contract and put up the bank rate—in their own words 'to create a money famine', which will make it impossible for people here to get rupees to sell for sterling. They say if you only do that you will get remittance". *L/PO/* 269, IOR, London.

repeatedly, thus causing havoc in the Indian economy, especially in the money market.

However, a total breakdown of the remittance mechanism was averted by the massive export of gold from India that occurred in this period. The gold exports were crucial in compensating for the drastic drop in India's export surplus on commodity transactions.[6] Gold was now offered for sale because the rural population, badly hit by the Depression, was forced to use its savings to meet its revenue obligations and consumption requirements.[7] Also, the massive deflation pushed gold prices in India below world prices, encouraging its export.[8]

Privately, some British officials like Schuster, the Finance Member, now began to recognize that "the British government has been alone responsible for the state of affairs in India and for a policy which—wrongly perhaps but nevertheless in fact—the whole Indian public has resented and opposed". He wrote to Irwin, the Viceroy, in June 1931: "No one...can deny that the position would be much easier today if the rupee had not been stabilized at 1s 6d in 1927. And we are asking a new responsible Indian Government to take on that legacy".[9]

Schuster, being aware that "we are on the brink of a crisis which may mean absolute disaster—not only for India but for Britain also", suggested some conciliatory moves towards Indian financial and political opinion. For example, he suggested the announcing of a credit of about £50 million or better still, the return of the £100 million war gift (made by India to Britain) by the British government to enable India to tide over the present crisis and give her enough resources to set up a Reserve Bank immediately. He pointed out how the currency policy of the Government of India was "one of the most important factors in the whole anti-British political movement".[10] The need to give concessions on this point to the commercial community, who were seen to be "probably the decisive factor" in the Civil Disobedience Movement, was also recognized.[11]

However, it appeared that Schuster's was a lone voice within the government. Whatever his differences with the India Office—often it being difficult to say, as Purshotamdas put it, "where Schuster's regime ended and where India Office dictation prevailed"[12]—there was, as a result, little change in government policy regarding finance.

[6] See Bannerji, *India's Balance of Payments*, pp. 22, 27; Subramanian and Homfray, *Recent Social and Economic Trends*, pp. 45–46; and Birla, *Indian Currency*, p. 17.

[7] *Ibid.*

[8] Speech of N.R. Sarkar, BNCC President, 5 February 1932, *PT Papers*, press clippings, fl. 11.

[9] Schuster to Irwin, 1 June 1931, *L/PO*/269, IOR, London.

[10] *Ibid.*

[11] See Viceroy, Willingdon, to Samuel Hoare, Secretary of State, 14 March 1932, attaching a note by Schuster, *L/PO*/271, IOR, London.

[12] Review of Schuster's work in the last five years, 5 May 1934, *PT Papers*, fl. 76. See also Schuster's speech in FICCI, defending the 1s 6d ratio, denying the role of currency policy in

The Indian exchange continued to be shored up and maintained at 1s 6d through monetary and fiscal deflation and continued gold exports. When Britain went off the Gold Standard due to the financial crisis at home, the rupee was not allowed to adjust itself vis-à-vis gold but was forcibly linked to sterling. This was also the period when the prolonged discussions on the proposed Reserve Bank and its final establishment in 1935 took place, laying bare the basically unchanged nature of imperial policy. Despite protests during the constitutional discussions in the Round Table Conferences and constant pressure through other forums, it was not possible to budge the British on this key area of financial and monetary policy.

This then was the context in which the capitalists responded—perhaps more sharply than on any other economic issue up to this time.

The capitalists argued that the government financial policy, especially that of maintaining a high exchange through deflation was the root cause of the depression being felt more intensely in India than in other countries of the world.[13] The world depression itself was said to be man-made and caused by the "exploitation of the less powerful by the more powerful", by "one politically powerful nation holding the other in subjection and having the best to itself".[14]

More or less the same arguments as made earlier (see Chapter 3 in this volume) regarding the impact of a high exchange and deflation on agriculture, industry and trade were repeated though the great increase in the intensity of this impact was emphasized. The capitalists particularly highlighted the deteriorating condition of the agriculturist as the most distressful development. The sharp fall in prices hit them hard, especially as export prices fell by 36 per cent, while import prices fell only by 16 per cent between September 1929 and December 1930.[15] The sharp turn in the terms of trade against primary produce affected the "agriculturist...with special severity".[16] "The value of India's export trade tumbled from Rs 319.15 crores [3,191.5 million] in 1927–28 to Rs 132.27 crores [1,322.7 million] in 1932–33, the nadir of Depression, and even in 1936–37 was only Rs 196.13 crores [1,961.3 million] ".[17] Not surprisingly, "the burden of rural indebtedness rose from Rs 900 crores [9,000 million] in 1928–29 to Rs 1200 crores [12,000 million] by 1933 which in real terms amounted to Rs 2200 crores [22,000 million], assuming that no repayment of debt or payment of interest was made".[18]

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the Depression and attributing India's depreciated credit abroad to the Civil Disobedience Movement, FICCI, *AR*, 1931.

[13] C.B. Mehta in *Free Press Journal*, 20 September 1931, *PT Papers*, press clippings, fl. 13; Sri Ram, President, FICCI, *AR*, 1931, p. 6.

[14] Purshotamdas Thakurdas, *Free Press Journal*, 20 September 1931, *PT Papers*, press clippings, fl. 13.

[15] G.D. Birla's letter to *Manchester Guardian*, 2 October 1931, *PT Papers*, fl. 111 pt. 1.

[16] Memor. on the Rs./Stg. ratio, 19 September 1933, enclosure to G.D. Birla to Purshotamdas, 20 October 1933, *PT Papers*, fl. 145.

[17] Birla, *Indian Currency*, p. 17.

[18] *Ibid.*

G.D. Birla outlined the depressing economic scenario in a letter to J.M. Keynes and sought his support in what he thought was the only remedy to relieve the agriculturist—"an immediate settlement of political trouble and a *50 per cent rise in prices*."[19] The Currency League in a press note on 22 November 1933 asserted that the "crying necessity of today is a rise in the prices of commodities and particularly of primary products and the only way... to bring it about is to devaluate the rupee which is being wrongly and unjustifiably maintained at 18d sterling in the face of continuously dropping prices in the country".[20] It was pointed out that "the sensational depreciation in the dollar" (by a possible 50 per cent) as well as the depreciation of the currencies of other sterling group countries like Australia and New Zealand (by about 10 to 25 per cent), while the rupee was kept at an unnatural high level, was leading to Indian produce losing out to that of these countries in the world market.[21]

Further, it was pointed out that the deflationary policy followed by the government, leading to the withdrawal of "about 133 crores of rupees from circulation mainly through borrowings" (e.g., the recent announcement of the Government of India Treasury Bonds at 6 $\frac{1}{2}$ per cent), was leading to extreme tightness in the market. Bank rates shot up to about 7 to 8 per cent in Calcutta and Bombay when money had been "available in other financial centres at 2 per cent or 1 $\frac{1}{2}$ per cent". No funds were available for trade and industry and even "the marketing of crops...maturing in the fields" was becoming difficult.[22]

The high exchange was also depleting India's gold resources, "threatening the inconvertibility of the currency" and reducing a basic precondition for the starting of a Reserve Bank. The FICCI repeatedly complained that the government in order to maintain and cheapen remittance was persisting with a high exchange, despite the fact that it exacerbated the economic crisis in India, as it led to the depressing of prices, pushing up of the value of taxes and debt, depletion of gold resources, flight of capital and a rapid growth in national debt and debt services.[23]

[19] 28 May 1932, *PT Papers*, fl. 107, pt. II, emphasis mine.

[20] *PT Papers*, fl. 145, see also Purshotamdas to Schuster, 24 November 1933, *ibid*.

[21] A.D. Shroff to Sir Osborne Smith, 22 November 1933 and Memor. on the Rs./Stg. ratio, 19 September 1933, *PT Papers*, fl. 145; Purshotamdas Thakurdas, Notes on Minutes of Dissent on the Report of the Committee on Indian Reserve Bank Legislation, 1 September 1933, *PT Papers*, fl. 189.

[22] G.D. Birla, *Manchester Guardian*, 2 October 1931, and Purshotamdas, Note dated October 1931, *PT Papers*, fl. 111, pt. 1; Jamal Mahomed, President, FICCI to Schuster, 9 September 1931, *WH Papers*, fl. 8, pt. II; Purshotamdas in *Bombay Chronicle*, 3 September 1931, *PT Papers*, press clippings, fl. 11; President, FICCI, *AR*, 1937, pp. 8ff.

[23] Jamal Mahomed, President, FICCI to Schuster, 9 September 1931, Press Statement by Jamal Mahomed 9 October 1931, *WH Papers*, fl. 8, pt. II. For a general criticism of a high ratio and the demand for a lower ratio also see, FICCI resolutions on currency and exchange in FICCI, *AR*, 1930, 1931, 1934; and Purshotamdas' reply to Schuster in FICCI, *AR*, 1930, pp. 118ff.

The British Prime Minister's offer in June 1931 of financial aid to India in the form of credit was not received with much enthusiasm though Schuster had hoped that it would be seen as a conciliatory move.[24] Such loans, it was said, were only "temporary palliative(s)" and could not go on for a long time and therefore were not a solution to the problem. Besides, it was "undesirable" to resort to such methods because not only had the loans to be repaid but the interest services would involve an additional burden further exacerbating the problem.[25]

The capitalists warned the government of the danger of political upheaval if they continued to pursue the existing monetary policies. There was increasing discontent among the middle classes and a definite encouragement of "bolshevik tendencies" among the agriculturists and the "ignorant masses". The peasant was making persistent demands for land revenue remission and was unable to pay rent or interest charges and "almost a blood feud between the zamindar and the tiller of the soil" was developing in many provinces.[26]

Given this context, therefore, the capitalists repeatedly urged the government to bring in reform in the financial sphere. However, while continuing to urge reform, they were increasingly showing awareness of two significant aspects. First, that it was not enough to go on passing resolutions asking for reform; some stronger sanctions were necessary.[27] The Congress taking up the ratio question and Gandhiji putting a lower ratio as one of his 11-point demands were therefore welcomed with gratitude.[28] Second, it was realized that the ultimate solution was political, as the "economic and financial restoration of India" would occur only when the "management and control of Indian Currency and Finance" was handed over "to the elected representatives of the people". Just as, conversely, "the substance of self-government" would be achieved only with complete "fiscal and financial autonomy for India".[29]

A review of some of the other major issues regarding finance and monetary policy that came up in these years will provide an indication of how and why the capitalists arrived at this position.

[24] Schuster to Irwin, 1 June 1931, *L/PO/269*, IOR.

[25] Jamal Mahomed to Schuster, 9 September 1931, *WH Papers*, fl. 8, pt. II.

[26] Purshotamdas to the Viceroy, Willingdon, 18 June 1931, *PT Papers*, fl. 106; Purshotamdas in *Bombay Chronicle*, 3 September 1931, *PT Papers*, press clippings, fl. 11; and Currency League of India, press note, 24 November 1933, *PT Papers*, fl. 145.

[27] See for instance R.K. Sidhwa in FICCI, *AR*, 1931, pp. 106–7.

[28] FICCI, *AR*, 1931, p. 105.

[29] Purshotamdas in *Bombay Chronicle*, 26 September 1931, *PT Papers*, press clippings, fl. 13; and in FICCI, *AR*, 1932, p. 56; D.P. Khaitan in FICCI, *AR*, 1931, pp. 97–98.

II. The Rupee–Sterling Link

The decision of the Government of India, under the direction of the Secretary of State, to link through an ordinance the rupee to sterling (September 1931), once Britain herself went off the Gold Standard, met with strong criticism by the Indian capitalists. The "arbitrary and despotic action of Sir Samuel Hoare…completely ignoring not only the wishes of the Legislative Assembly and the Round Table Conference but also the declared intentions of the Government of India" was described as the "last straw on the camel's back and the deathknell of that intolerable constitution" which gave the Secretary of State such powers.[30] Referring to the earlier British refusal to grant India a proper Gold Standard and the bringing in instead of the Gold Exchange Standard as a mechanism for introducing a link with sterling through the backdoor, Purshotamdas said that, since September 1931, "back door became the front door", as the rupee was completely delinked from gold and firmly linked to the sterling.[31]

However, despite widespread protests, the government remained firm on this point and the rupee remained linked to sterling, giving indirect control over Indian exchange to the Bank of England and the Secretary of State. This link was to continue till as late as April 1947 when, consequent on India joining the International Monetary Fund, a bill severed the link of the rupee from sterling and the latter became a foreign currency.[32]

The capitalists generally opposed this link and argued in favour of the rupee being left free to find its own level. The divorcing of the rupee from sterling was expected to lead to a considerable fall in the rupee in terms of gold, a fall which, as argued repeatedly, would help agriculture and industry and meet the most immediate need of raising prices and giving a fillip to exports.[33] By linking the rupee to sterling the government missed the opportunity "to undo the wrong perpetrated on India by overvaluing the Rupee".[34] The FICCI, in its strongly worded resolution passed in the 1932 annual meeting, listed some other substantive objections to the linking of the rupee to sterling:[35]

[30] Resolution, FICCI, *AR*, 1932, p. 49; Press Statement by President of FICCI, Jamal Mahomed on Exchange and Currency Policy of Government of India, 9 October 1931, *WH Papers*, fl. 8, pt. II; FICCI telegram to Secretary of State, 24 September 1931, FICCI, *Proc. of EC*, 1931, pp. 14–16.

[31] Article by Purshotamdas called "Currency and Exchange" in a volume published by the American Academy of Political and Social Science, USA, May 1944, *PT Papers*, fl. 280.

[32] *Free Press Journal*, 22 January 1947, *The Times of India*, 17 April 1947; and Speech of IMC President, May 1947, *WH Papers*, fl. 92, p. 1.

[33] See G.D. Birla's note to Gandhiji during the RTC discussions, October 1931, and Purshotamdas in the Discussion of Indian Financial Questions held at India Office, 16 October 1931, *PT Papers*, fl. 111, pt. II.

[34] Resolution in FICCI, *AR*, 1932, p. 48.

[35] FICCI, *AR*, 1932, pp. 48–49. See also Telegram by IMC to Government of India, Finance Department, 22 September 1931, *PT Papers*, fl. 111, pt. II.

(a) Future management and fate of sterling are and must remain outside the control of the Government of India.
(b) The new valuation of sterling in terms of gold will be determined in accordance with considerations affecting the economic and financial conditions of the United Kingdom, and may possibly prove detrimental to the economic and financial interests of India.
(c) Any claim of any measure of stability being secured by link to sterling is neither material nor real as sterling itself is, under present conditions, not only fluctuating but most uncertain.

Further, "had the rupee been allowed to remain linked with gold, as recommended by the Hilton Young Commission and as laid down by the Act of 1927, the obligations of the Government of India in sterling would have cost, when converted, lower and lower in terms of rupee as the sterling depreciated in gold value".[36]

Also, it was said that it was impossible to conceive of a Reserve Bank with the rupee linked to sterling, i.e., based on sterling reserves, as the Government of India seemed to propose. "There is no certainty when sterling would be stabilised and even if it is stabilised there is no guarantee that Britain will not again abandon Gold Standard...." It was pointed out that the "National Bank of Egypt had to abandon Gold Standard when Britain abandoned it because it had most of its reserves in sterling". The rupee, therefore, "should not remain linked with sterling but should be allowed to find its natural level and then should be independently linked with gold and for that purpose government of India should acquire gold".[37]

The apprehension expressed by FICCI that "one inevitable consequence of linking the Rupee to Sterling would be the diversion of all Gold and Dollar credits accruing to India for the bolstering up of the value of Sterling" was to turn out to be painfully true, particularly during and immediately after the Second World War, when India was, through the Empire Dollar Pool, "deprived of many millions of dollars which should, in the normal course, have been made available to her".[38] I have in the following chapter (Chapter 5) on the Sterling Balances and the Empire Dollar Pool discussed at length this question of how the rupee–sterling link was used by Britain to her great advantage at considerable cost to India.

Lastly, in the discussions on Indian financial questions held at the India Office (as part of the Round Table Conference talks) in October 1931, G.D. Birla strongly argued that "the Ordinances of the Government of

[36] Indian Chamber of Commerce, Great Britain to the Secretary of State, 1931 (no date), *PT Papers*, fl. 111, pt. 1; and Resolution passed by Public meeting organized by IMC, Bombay, 25 September 1931, *PT Papers*, fl. 111, p. II.
[37] C.B. Mehta of Bombay Bullion Exchange in FICCI, *AR*, 1933, p. 34.
[38] Press Communique, FICCI, *Corresp.*, 1944, p. 43.

India have *not even linked the rupee to sterling*; they have simply stopped the exchange below $\frac{1}{6}$ d... i.e., you allow the exchange to go higher than $\frac{1}{6}$ d but you do not allow it to drop below $\frac{1}{6}$ d".[39] Sir Henry Strakosch, the financial expert from the India Office, was forced to concede that the rupee was actually "pegged at the lower sterling point", though he added that this was only a legal point and he doubted "whether the rupee will go of its own accord above $\frac{1}{6}$ d".[40]

Quite significantly, in these discussions at the Round Table Conference, Gandhiji, using more or less the arguments put forward by the capitalist leaders, took a firm position in favour of a lower exchange, highlighting the plight of 80 per cent of the population, i.e., the agriculturists.[41] The capitalists, as mentioned earlier, welcomed this support and conveyed their "respectful thanks" to the Mahatma for protesting against the policy followed by the Secretary of State.[42]

III. Gold Exports

Another issue which irked the capitalists considerably was the unprecedented level of gold exports from India during the period of the depression. (See the section on "The Rupee–Sterling Link"). Between 1931–32 and 1939–40, the total value of gold exports was a stupendous Rs 3,820 million.[43] In the initial, worst years of the Depression the gold exports were particularly high. "Practically a couple of gold mines" were put "at the disposal of England and the world at large",[44] with the shipment of four months alone equalling "more than one third of the annual world supply of new gold".[45]

India had a large export surplus in commodities between 1920–21 and 1930–31, enabling a substantial net import of treasure. However, since 1931–32, in a total reversal of the situation, the export surplus in commodities shrank drastically and India began to export large amounts of gold. Between 1931–32 and 1938–39, on an average, more than half (about 55 per

[39] 6 October 1931, *PT Papers*, fl. 113.

[40] Discussion at the India Office of Indian Financial Questions, 6 October 1931, *PT Papers*, fl. 113.

[41] Gandhiji's note to Strakosch, 23 October 1931, *PT Papers*, fl. 111, pt. II; and Report of discussions at India Office, 16 October 1931, *PT Papers*, fl. 113.

[42] Resolution passed at Public Meeting organized by the IMC, Bombay 25 September 1931, *PT Papers*, fl. 111, pt. II; and Telegram from FICCI Committee to Gandhi, 24 September 1931, FICCI, *Proc. of EC*, 1931, pp. 14–16.

[43] Birla, *Indian Currency*, p. 17.

[44] Purshotamdas Thakurdas, Note on Schuster's Work Over the Last Five Years, 5 May 1934, *PT Papers*, fl. 76.

[45] Speech of N.R. Sarkar, President, Bengal National Chamber of Commerce (henceforth BNCC), 5 February 1932, *PT Papers*, press clippings, fl. 11.

cent) of the total visible (positive) balance of trade (i.e., balance of transactions in merchandise and treasure) was met through the net exports of treasure, with the exports of gold increasing sharply in years when the commodity balance of trade was particularly low. For example, in 1932–33, *gold exports constituted about 95 per cent of the total visible positive balance of trade*.[46]

The crucial role of gold exports, therefore, in India's continuing to meet her remittance requirements or "sterling obligations"—the home charges as well as the other invisibles such as profits, dividends and interests earned on foreign investments—was evident. And the capitalists repeatedly accused the government of allowing such huge gold exports to continue, despite constant protests, because it wanted precisely to maintain a smooth flow of this remittance.[47] The government was also accused of allowing gold exports with the intention of shoring up the rupee exchange and maintaining it at the inflated rate of 1s 6d, at a time when the falling balance of trade was putting a downward pressure on the rupee.[48] The government restriction on import of silver and its sales of silver were also said to be leading to the contraction of currency and thus through deflation maintaining the bloated value of the rupee at 1s 6d.[49]

More important, the capitalists argued how India's gold exports were crucial for British interests at home. At a time when Britain was facing a balance of payment crisis, they played a major part in *strengthening the value of sterling vis-à-vis gold* and other currencies.[50] "The help", said N.R. Sarkar, was so "timely and material that sterling showed a tendency to sag as soon as gold exports from India began to slow down".[51] The gold exports were also said to have enabled Britain to repay war debts to the US and the "credits advanced by the Federal Reserve Bank of New York and the Bank of France without drawing upon her [own] gold".[52] In fact, argued Sarkar, "it was most unlikely that if Indian gold were unavailable

[46] The above figures have been computed from Subramanian and Homfray, *Recent Social and Economic Trends*, Table XII, pp. 45–46. C.B. Mehta of Bombay Bullion Exchange, cites similar figures for 1931 to 1938, FICCI, *AR*, 1938, pp. 46–50. See also Kasturbhai Lalbhai, President, FICCI, *AR*, 1935, p. 6.

[47] See, for example, N.R. Sarkar, 5 February 1932, *PT Papers*, press clippings, fl. 11; G.D. Birla to Keynes, 28 May 1932, *PT Papers*, fl. 107, pt. II; M.R. Parikh of Bombay Bullion Exchange, FICCI, *AR*, 1933, p. 42; Confidential letter of FICCI to member bodies, 30 July 1936, FICCI, *Corresp.*, 1936, pp. 104–6; C.B. Mehta, FICCI, *AR*, 1938, pp. 46–50.

[48] N.R. Sarkar, 5 February 1932, *PT Papers*, press clippings, fl. 11; M.R. Parikh, FICCI, *AR*, 1933, p. 42; Kasturbhai Lalbhai, FICCI, *AR*, 1935, p. 6; Resolution in FICCI, *AR*, 1939, p. 19.

[49] A.D. Shroff in FICCI, *AR*, 1935, p. 589; and FICCI, *Proc. of EC*, 1936, p. 55.

[50] Walchand Hirachand, President, FICCI, *AR*, 1933, p. 5; C.B. Mehta and M.R. Parikh, FICCI, *AR*, 1933, p. 42; N.R. Sarkar, 5 February 1932, *PT Papers*, press clippings, fl. 11; and Purshotamdas Thakurdas, 5 May 1934, *PT Papers*, fl. 76.

[51] BNCC Presidential Speech, 5 February 1932, *PT Papers*, press clippings, fl. 11.

[52] N.R. Sarkar, FICCI, *AR*, 1932, pp. 13–14; and Parikh, FICCI, *AR*, 1933.

England would have been able to repay America. In probability, she would have been forced to default or raise a loan in America…".[53]

It was small wonder then that the gold export was one issue on which the British home government remained very firm. It appears that the Governor of the Reserve Bank of India, Osborne Smith, had to resign partially because of his taking a position on this question which was far too independent of the India Office and the Finance Department. He had supported the capitalist and the nationalist demand for devaluation of the rupee to prevent outflow of hoarded gold from India.[54]

The government put forward several arguments in favour of gold exports. Arguments that were systematically countered by the capitalists. N.R. Sarkar, the President of Bengal National Chamber of Commerce, criticized the "laboured" argument that India's gold exports "would enable the countries who have gone off the Gold Standard to return to Gold, and that if this did not happen gold might soon depreciate in value and inflict incalculable loss upon the holders of gold in India". He argued that "such an eventuality [was] extremely remote" and besides, if countries like America and France with such large holdings of gold, who "would stand to lose most from any possible depreciation in the value of gold…, did not think it necessary to part with any of their gold just in order to help other unfortunate countries to return to the gold standard, it is almost ironical to ask India to step in to do a good turn to a sinking world".[55]

Sarkar also criticized the basic fallacy in Finance Member Schuster's argument that, given the shrinkage in India's exports, gold exports were necessary to maintain the level of imports. The argument, he said, assumed that maintenance of imports was necessary for India while actually a decline would give relief to indigenous industry. Besides, if exports could not support the imports, the natural thing to do was not to begin selling gold but to follow the path taken by other countries including England when faced with such a situation, viz., raise tariffs to curtail imports, depreciate currency to stimulate exports and put an embargo on export of gold.[56]

Schuster's argument that gold exports would increase the purchasing power of foreign countries who in turn will buy more from India was appropriately ridiculed by Sarkar as a very "novel" way of pushing exports. He posed a counter question that, since England was in great need

[53] FICCI, *AR*, 1933, pp. 27ff.

[54] *L/PO*/321, IOR. For a detailed account of the unusually strong difference between Osborne Smith and the Government of India, especially the Finance Member, James Grigg, where Smith ended up calling the Viceroy a "weak ass, terrified of failure" and Grigg "a liar, undercover slanderer and mongrel… a dirty scurrilous swine", etc., see exchange of telegrams between the Secretary of State and the Viceroy, September–October 1936, *L/PO*/321 and Osborne Smith to Purshotamdas, 16 November and 24 October 1936, *PT Papers*, fl. 105.

[55] Presidential Speech, 5 February 1932, *PT Papers*, press clippings, fl. 11.

[56] N.R. Sarkar in FICCI, *AR*, 1933, pp. 23ff.

of customers and India was one of her greatest customers, "would Sir George Schuster suggest to England that she should export her gold to India so that it may increase India's purchasing power and enable her to buy more from England?" The need, he said, was not to increase the purchasing power of India's customers but that of India, by retaining Indian gold in India and making it a basis for her currency.[57]

Two other arguments put forward by the Finance Member were also sharply retorted. First, the argument that, if gold was not sold to buy sterling, it would result in the government not being able to maintain its statutory obligation to maintain the rupee–sterling ratio. It was pointed out by Sarkar that other countries including the UK were abandoning the basis of their currency system for the sake of preventing an efflux of gold, and besides, he said, "Sir George (Schuster)...could well have assured himself that the disavowal of the Government's obligation to maintain the ratio would be welcome to the commercial community in India who have consistently been complaining against the over-valued rupee".[58]

Second, Schuster's refusal to restrict the export of gold on the basis of his political philosophy which "forbids him from interfering with the private liberty of individuals" was also shown to rest on dubious grounds. Making an obvious reference to the political suppression of the second Civil Disobedience movement, A.D. Shroff pointed out that the Finance Member could not invoke laissez-faire or non-interference in one sphere when he himself was an "important part of the present Government of India, who is responsible not only for suppressing the ordinary liberties of the citizens of this country but whose policy makes impossible, if I may say so, the very exchange of confidences between husband and wife under clause 4 of the Emergency Powers Act which has become the law of the land".[59]

A point which the capitalists repeatedly made was that while so many arguments were given for maintaining India's gold exports, other countries including England were doing exactly the opposite. Since Britain and Japan went off the Gold Standard, Britain "allowed its exchange to go down rather than export gold" and Japan "has prohibited the export of gold by decree".[60] In fact, far from losing gold, most countries like England, France, USA, Netherlands and Switzerland were conserving and actually acquiring gold while India continued to export gold out of "considerations other than Indian interests" and was being "made a pawn in the larger game of imperial finance".[61]

[57] *Ibid*. See also C.B. Mehta, FICCI, *AR*, 1933.
[58] FICCI, *AR*, 1933, p. 26.
[59] FICCI, *AR*, 1933, pp. 35ff.
[60] Purshotamdas Thakurdas, in *Advance*, 6 January 1932, *PT Papers*, press clippings, fl. 13.
[61] FICCI, *Proc. of EC*, 1934; *AR*, 1934, p. 55; *AR*, 1933, pp. 27ff.; and N.R. Sarkar, 5 February 1932, *PT Papers*, press clippings, fl. 11.

The capitalists' demand on this question was clear and unequivocal. Through speeches, petitions, and resolutions in FICCI and other chambers of commerce they demanded, year after year, an embargo on the export of gold.[62] They urged that the government use the opportunity of "distress" gold being available in the market in the present conditions to purchase gold and build up adequate currency reserves, paving the way for the early establishment of a Reserve Bank in India.[63] This policy, they said, would also lead to the expansion of currency in a "more natural and safer way" and would provide crucial relief by raising prices to some extent.[64] Interestingly, contemporary economists, V.K.R.V. Rao and Professor P.A. Wadia, in a letter to FICCI, congratulated the body for taking up these demands and urged them to further mobilize public opinion to compel the government to change its policies.[65]

Capitalists like Purshotamdas, who had been leading the agitation against the government's financial policy, were however getting weary of taking part in a movement to stop gold exports, because "under the present constitution" it may "mean knocking one's head against a stone wall", as India Office continued to do the opposite of the general public opinion in India. The "only remedy" seen therefore was "to insist on responsibility at the centre in matters currency and financial" in the new constitution.[66] Similarly, Sarkar saw a solution only in the "establishment of a true national government in India".[67] There were others who suggested that rather than appealing to the government the capitalists should intervene directly and pursuade firms dealing in purchase and exports of gold to desist from doing so.[68]

IV. Government Budgetary Policy

We have seen above how the government in order to maintain the 1s 6d ratio and ease remittance resorted to monetary deflation or contraction of currency in circulation, through the issuing of Reverse Councils, depletion

[62] See, for example, FICCI Telegram to Finance Member, 12 October 1931, FICCI, *Proc. of EC*, 1931, p. 16; Speech of President, FICCI, *AR*, 1932, p. 7; and Resolutions passed on this subject in FICCI, *AR*, 1932, 1934, 1935 and 1936.

[63] Resolutions in FICCI, *AR*, 1932, p. 9; *AR*, 1933, pp. 22ff.; N.R. Sarkar, 5 February 1932 in *PT Papers*, press clippings, fl. 11; and FICCI, *AR*, 1933; Purshotamdas in Joint Select Committee of RTC, 26 May 1933, *PT Papers*, fl. 138.

[64] Jamal Mahomed, President, FICCI, *AR*, 1932, p. 7; and G.D. Birla to Lord Lothian, 4 August 1932, *PT Papers*, fl. 126.

[65] April 1932 (?), *PT Papers*, fl. 42, pt. VI.

[66] Purshotamdas to Montagu, 10 October 1932, *PT Papers*, press clippings, fl. 11; and Purshotamdas in *The Times of India*, 24 March 1933.

[67] Speech, 5 February 1932, *PT Papers*, press clippings, fl. 11.

[68] K. Santanam, FICCI, *AR*, 1933, p. 44.

of currency reserves, excessive government borrowing, etc.[69] The rapid repatriation of sterling public debt which occurred in this period also had a deflationary effect, causing a further squeeze in the financial situation.[70]

Apart from the monetary deflation, the government also resorted to such "savage" financial and fiscal deflation, mainly through drastic cuts in expenditure, especially capital expenditure,[71] that the government revenue account showed a surplus for most of the depression years (barring 1930 and 1931), despite a substantial fall in revenue receipts in these years.[72] The heavy cuts in government expenditure seriously aggravated the crisis in the economy caused by the Depression, by further reducing effective demand. The government, however, continued to defend its orthodox financial policy in the name of "sound finance" and a "balanced budget".

The capitalists also saw the necessity of, and even argued for, retrenchment in government expenditure. Some prominent Indian capitalists, including Purshotamdas Thakurdas, were members of the Indian Retrenchment Committee of 1922–23.[73] However, the Indian capitalists' position on how and where retrenchment was to be done was very different from that of the government's. They did not in fact simply "acquiesce" in the policy of "financial orthodoxy" followed by the "British rulers", as Professor Bagchi has argued in his major work, *Private Investment in India*. A major advance in their views and positions appears to have occurred since the 1920s (an aspect Professor Bagchi appears to have missed) and in the 1930s their difference with the government view became quite evident.[74] I shall try to outline below briefly the somewhat more complex position of the capitalists on this issue.

The capitalists almost unanimously argued[75] that, if India was unable to meet her *home charges and other sterling obligations*, then the solution lay not

[69] See Sri Ram, President, FICCI, *AR*, 1931, p. 6.

[70] See Purshotamdas to A.R. Smith, 9 February 1929, *PT Papers*, press clippings, fl. 11.

[71] Kasturbhai Lalbhai, President of FICCI, accused the government of reducing their public work expenditure by as much as 50 per cent. FICCI, *AR*, 1935, pp. 13–14. B.R. Tomlinson estimates a much sharper drop with the government outlay on capital expenditure declining from an average of Rs 270 million between 1920–30 to an average of 60 million between 1931–39; see Tomlinson, *Political Economy*, p. 91.

[72] See Bagchi, *Private Investment*, pp. 45–47, 64–65; and P.J. Thomas, *The Growth of Federal Finance in India: Being a Survey of India's Public Finances from 1833 to 1939*, London, 1939, pp. 496–97.

[73] Bagchi, *Private Investment*, pp. 44, 426.

[74] *Ibid*. Quite significantly Purshotamdas refused an invitation by Schuster in May 1931 to be a member of the retrenchment committee. The main argument he gave for his refusal was that he felt that there was a need for a basic change in government policy regarding the expenditure of Military and other departments. Mere tinkering would not do. See Purshotamdas to Willingdon, 4 June 1931, *PT Papers*, fl. 106.

[75] The information and arguments in this and the following two paragraphs are taken from the following sources except where otherwise indicated. They are cited together as there is a considerable degree of overlap. G.D. Birla, FICCI, *AR*, 1930, p. 13; Sri Ram, President, FICCI,

in resorting to currency and financial manipulations, export of gold or increased taxation, but in cutting or reducing *these obligations* themselves. Year after year through every possible forum the capitalists argued that the government must considerably cut its expenditure, some arguing a cut of up to one third.[76] The areas where they demanded cuts were government civil and military expenditure and not capital expenditure on railways, irrigation or public works. The bureaucracy, it was said, was top heavy and paid far beyond the financial resources and taxable capacity of India. Hence salaries and pensions should be considerably reduced and further recruitment in Britain should stop.

Much stronger arguments were put up in favour of cutting military expenditure. Statistics were given to show how India's defence expenditure as a proportion of total expenditure was the highest in the world, much greater than even countries like the USA, Great Britain, France, Belgium, Japan, Canada and Australia. In fact the actual defence expenditure in India was said to be much higher than that specifically set aside for this purpose in the budget, as expenditure on other items such as strategic railways belonged strictly under the head of defence expenditure.[77] Further, most of the defence expenditure was incurred not directly for India's defence but to meet Britain's worldwide imperial interests—India serving as the proverbial "milch cow of the British empire".[78] It was therefore demanded that not only should defence expenditure be drastically cut, inter alia by replacing British troops with Indian recruits, but that Britain should share a "legitimate" proportion of the burden.

In a note circulated at the Round Table Conference in 1933 by Purshotamdas, "the financial difficulties of India during the last fifteen years" were "attributed to a large extent to the enormous monetary contributions direct and indirect made by India"(estimated at Rs 3,050 million) "towards the expenditure on the Great War".[79] The huge "unproductive" public debt was also said to have accumulated to a large extent to meet British imperial, primarily military, interests. Consequently, in 1932, FICCI, in a resolution, which was reminiscent of the AICC report brought out a few months earlier,[80] demanded "the appointment of a tribunal for an impartial and

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AR, 1931, p. 7; Purshotamdas to Willingdon, 4 June 1931, *PT Papers*, fl. 106; Jamal Mahomed, 5 February 1932, *PT Papers*, press clippings, fl. 11. Jamal Mahomed, President, FICCI, *AR*, 1932, p. 8; Presidential speech by Walchand Hirachand and Resolution on salaries of government servants, FICCI, *AR*, 1933; Resolution on Military Expenditure, FICCI, *Proc. of EC*, 1934; Resolution on Budget Proposals, FICCI, *Proc. of EC*, 1936, p. 51; FICCI to Government of India, Finance Dept., 2 March 1938, FICCI, *Proc. of EC*, 1937, pp. 43–45.

[76] Walchand Hirachand to Schuster, 9 September 1931, *WH Papers*, fl. 8, pt. II.

[77] Note circulated by Purshotamdas to members of the Sub Committee on Defence Expenditure, Round Table Conference, 7 July 1933, *PT Papers*, fl. 139.

[78] Purshotamdas in FICCI, *AR*, 1933.

[79] 7 July 1933, *PT Papers*, fl. 139.

[80] Report on the Financial Obligations between Great Britain and India, by a select committee appointed by the AICC Working Committee, *sd*. K.T. Shah, Bhulabhai Desai and

thorough investigation into the financial obligation between Great Britain and India".[81] During the Second World War, with the phenomenal increases in defence expenditure, the demand for a fair allocation of the expenditure came up again in a big way and the Indian capitalists mounted a veritable campaign on this question, with now the additional demand of popular control over defence expenditure.[82]

As mentioned earlier, while the capitalists demanded a reduction in civil and military expenditure, they were totally opposed to cuts in capital expenditure.[83] In fact the argument precisely was that cuts in the former would release funds for "nation building departments".[84]

It was with this perspective that the capitalists looked forward to provincial autonomy as then more funds could be made available to the provinces which would use them for developmental expenditure.[85] The Otto Niemeyer Report on financial adjustment between the Government of India and provincial governments was criticized for not recommending cuts in central government expenditure, especially military expenditure, thus leaving provincial governments "no elbow room" for developmental expenditure without resorting to additional taxation.[86] Also, the FICCI urged the government to secure a redivision of the burden of the imperial military expenditures at the Imperial Conference so that India may get some relief and "immediately make available to Provincial Governments considerable sums towards the expenditures of nation building departments".[87]

Clearly, it was not "financial orthodoxy" which led the capitalists to argue for cuts in expenditure. They wanted cuts in those areas which they thought were wasteful and not in India's interests and which created an

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D.N. Bahadurji. July 1931, *Bhulabhai Desai Papers*, fl. 12. The report made out a case for India transferring her public debt to England.

[81] FICCI, *AR*, 1932, p. 27; and G.D. Birla to Purshotamdas, 14 January 1932, *PT Papers*, fl. 42, pt. VII.

[82] See, for example, FICCI to Finance Dept., Govt. of India, 13 July and 4 September 1942, regarding the Financial Adjustment between Her Majesty's Government and the Government of India with reference to Defence Expenditure of India, FICCI, *Corresp.*, 1942, pp. 133–46; FICCI, Asstt. Secretary, N.G. Abhyankar's note on India's Defence Expenditure and its allocation between India and Britain, September 1941, *PT Papers*, fl. 254. Also see the strong position taken by N.R. Sarkar and H.P. Mody, members of the Viceroy's Executive Council, on this question in Viceroy to Secretary of State, 7 December 1942, *L/PO*/325, IOR, London.

[83] Kasturbhai Lalbhai, President, FICCI, *AR*, 1935, p. 14.

[84] Jamal Mahomed, President, FICCI, *AR*, 1932, p. 8; and Resolution on Government Tax and Military Expenditure in FICCI, *Proc. of EC*, 1934 and *AR*, 1936.

[85] FICCI to Government of India, Commerce Dept., 26 April 1937, FICCI, *Corresp.*, 1937, pp. 238–40; N.R. Sarkar, President's speech, FICCI, *AR*, 1934.

[86] Purshotamdas to D.P. Khaitan, 19 May 1936 and attached FICCI draft letter to Finance Dept. on Otto Niemeyer Report, *PT Papers*, fl. 175, pt. I. It may be noted that the FICCI draft does demand cuts in Railway expenditure though on the grounds that its management was costly and bureaucratic leading to its not being able to contribute to the general revenues of the country.

[87] 26 April 1937, *Economic and Overseas Dept.*, L/E/9/1149, IOR, London.

excuse for government financial and monetary manipulations, causing further damage to the Indian economy. For developmental purposes or "productive" expenditure they consistently argued that shortage of finance was not a bottleneck provided the "fad" or "fetish" of "balanced-budgets" indulged in by the government was given up. They openly urged *deficit financing* or *public loans* to meet shortfalls in revenue saying that, if used for productive purposes, "they do not necessarily prove any inherent weakness in government finances".[88] G.D. Birla argued that even the Gold Standard Reserve could be "used for economic advancement of the country rather than keeping it invested where it does not benefit India in the least".[89] Interestingly, the capitalists, who had always opposed the depletion of gold reserves or government borrowing to meet remittance or as a method of deflation, had no hesitation in suggesting that the reserves or government borrowing be used for productive developmental expenditure. Examples were given of how the United States, Japan and Germany under Hitler were using huge deficit budgets or raising large loans for developmental public expenditure.[90] A clear preference was thus expressed for the modern Keynesian conception of finance rather than for the "orthodoxy of Schuster".[91]

Rather than merely "waiting for improvement in the world economic situation", the path urged by G.D. Birla in 1934 for recovery from the depression was the adoption by the government of a *"bold reflationary policy* by undertaking a scheme of public works expenditure specially in rural areas".[92] Further, N.R. Sarkar and others argued that "the initiation of a vigorous capital programme would prove to be an effective way of stimulating the demand for industrial goods, inducing greater purchasing power in the masses and relieving industries suffering from a dearth of demand and a plethora of stocks", and also of finding "much needed employment for the huge army of unemployed".[93] The days of "undiluted

[88] See N.R. Sarkar, President, FICCI, *AR*, 1934, pp. 10–11; and G.D. Birla, FICCI, *AR*, 1934, pp. 175–76.

[89] FICCI, *AR*, 1934, p. 174.

[90] It was pointed out that the USA decided to have a deficit budget of $9,000 million, while Japan and the USA raised huge loans of 811 million yens and $3 billion respectively. See Sarkar and Birla in FICCI, *AR*, 1934, p. 11 and p. 175 respectively.

[91] *Ibid*.

[92] G.D. Birla, FICCI, *AR*, 1934, pp. 159–60, emphasis mine. It is important to note that Birla particularly emphasized the "rural areas" because he argued that it was in this sphere (along with trade) that the impact of the depression was felt most severely and also it involved the vast majority of the population. Industry, he pointed out, in many areas such as cotton, jute and steel was not doing so badly due to a combination of monopoly and protection. Besides, industry, he said, employed "no more than 35 lakh of men, viz., just one per cent of the total population". *Ibid*., pp. 150–64. See also, Kasturbhai Lalbhai, Presidential Speech, FICCI, *AR*, 1935, pp. 13–14.

[93] N.R. Sarkar, President, FICCI, *AR*, 1934, p. 14; and Resolution on capital expenditure by Government, FICCI, *Proc. of EC*, 1934.

laissez-faire", it was said, "are gone for ever" and while all other countries, including England, were giving it up the government continued to apply it to India.[94]

Clearly, the capitalists saw the necessity of an active intervention by the state in wide ranging areas to enable a basic restructuring of the economy. Planned "mass action" and "government intervention" with the "cooperation of the people", it was said, was necessary if India was to be lifted from the economic morass and achieve "substantial rise in our standard of living". "Half-hearted" tariff protection, quotas, price restriction or other similar tinkering by the government will not "take us anywhere" unless "they form links in a chain" with a planned "purpose behind it".[95] And, as G.D. Birla was to argue repeatedly, "financial orthodoxy" and the "fetish of balanced budget" was not to be allowed to come in the way of planned economic development. He asserted that "those who [brought] in the question of capital", i.e., of the shortage of financial resources for developmental expenditure, "simply wanted to dodge the issue".[96]

Quite contrary to Professor Bagchi's assertion, the Indian capitalists clearly did not "acquiesce" in the "financial orthodoxy" adopted by the "British rulers". Albeit the capitalists, being capitalists, did not demand the "adoption of a framework of socialist planning", which Professor Bagchi argues, was necessary "for the removal of the basic obstacles to industrial development in India…". However, neither were they satisfied with "mercantilist platitudes" contenting "themselves by demanding tariff protection", as Professor Bagchi would have us believe.[97] Their vision of Indian economic development, though it remained within bourgeois parameters, was far more sophisticated, anticipating many of the innovations brought about in the world capitalist system in the years to come.[98]

V. The Reserve Bank of India

The prolonged controversy preceding the actual inauguration in April 1935 of the Reserve Bank of India (henceforth RBI) clearly brings out the domination sought to be exercised by the British government over Indian financial policy. In this section, I will discuss some of the major aspects of how Britain sought the protection of her financial interests in India through the RBI and the manner in which the Indian capitalists resisted it.

[94] N.R. Sarkar, FICCI, *AR*, 1934, pp. 5, 14.

[95] G.D. Birla, FICCI, *AR*, 1934, pp. 167–68.

[96] See, for example, *ibid.*, pp. 175–76.

[97] See Bagchi, *Private Investment*, pp. 426–27. The quotations in this paragraph are all from this source.

[98] See Chapter 1 and Chapter 11 on Planning and Public Sector in this volume.

I will also try to bring out what the Indian capitalists themselves hoped to achieve through the RBI.

The controversy over the RBI is divided over two phases. It began with the Hilton Young Commission recommending (in 1926) a Reserve Bank and the introduction of a Reserve Bank Bill in the Central Legislative Assembly in 1927 by Basil Blackett, the Finance Member. The second phase coincided with the constitutional discussions (in the early 1930s) associated with the Round Table Conferences and culminated with the discussions on the RBI Bill which was once again put before the Assembly in 1933. By this time the colonial government's intentions had become clearer and so had the positions on the Indian side.

Va. The First Phase, 1927–28

Following the recommendations of the Hilton Young Commission, the Government of India in consultation with the India Office circulated a draft Bill, in March 1927, for a Reserve Bank in India, on the basis of capital subscribed by private shareholders and a Gold Bullion Standard (i.e., no gold currency to be in circulation in India).[99] The main argument given in favour of the shareholders plan was that it would enable the bank to work independently and eliminate "political" pressure. The arguments against a gold currency were the same as put forward by the Hilton Young Commission, as discussed earlier. (See Chapter 3 in this volume.)

However, there was a strong Indian opposition to these proposals from the nationalists and the leaders of the capitalist class. In August 1927, the Joint Select Committee of the Assembly to consider the RBI Bill voted, under the energetic persuasion of Purshotamdas, by a majority against a shareholders bank and for a state-owned bank.[100] Sensing the political and business opinion in the country, the Government of India in June 1927 urged the Secretary of State to agree to certain concessions on the questions of private shareholders and a gold currency for India. The Government of India, inter alia, recommended a plan whereby the capital of the Bank would be put up by the state and not by private shareholders and, while the majority of the directorate of the Bank would derive their mandate directly or indirectly from the government, a small minority of the board would be elected by European and Indian chambers of commerce.[101] The Viceroy also argued:[102]

[99] See Memorandum on Points of Controversy Between the Government of India and the Secretary of State Arising out of the Reserve Bank Bill, 5 November 1927 (henceforth Memor. on RBI Bill, 5 November 1927), pp. 4, 8, *L/PO/*316, IOR, London.

[100] *The Indian National Herald*, 31 May 1927, *PT Papers*, fl. 61.

[101] Memorandum on RBI Bill, 5 November 1927.

[102] Telegram, Viceroy to Secretary of State, 20 June 1927, *L/PO/*316, IOR, London, emphasis mine. Also see, Viceroy to Secretary of State, 4 July 1927, *ibid*.

> It would be a real misfortune if we had to drop the Bill and fall back on an attempt to treat Currency Act passed in March as final settlement; instead of being what it was, a merely interim measure. If the Bill is lost it will be difficult, if not impossible, to conceal the fact that it will have broken down on our refusal to make a concession which admittedly does not infringe the principle of the Bill, and that our refusal was due... to *orders from London*. On the other hand, there will be *big political advantage* if we can carry the Bill with general assent.

The Secretary of State, on his part, while recognizing the "political advantages of concession", told the Government of India in no uncertain terms that he could not allow "political considerations" to determine a "question so delicate and intricate as that of the currency".[103] The Secretary of State had initially (July 1927) "reluctantly...acquiesced in non-shareholder's bank", provided, inter alia, that the "board of the bank would not in any way be answerable to the legislature".[104] However, once the Joint Select Committee of the Legislature "rejected a clause in the draft Bill excluding members of the Legislature from eligibility for the Board and further proposed that six of the Directors should be elected by the elected members of the Central and Provincial Legislatures", the Government of India and the Secretary of State reverted back to the shareholders plan.[105]

When the matter came up before the Legislative Assembly, the Government of India, keen to reach a workable compromise, once again began to explore various "schemes for a bank on a non-shareholder basis", including a plan where the board of directors would consist of, apart from the government nominees, non-official members of the Central Legislature, representatives of Indian and European Chambers and members elected by the stockholders of Government of India Reserve Bank stock.[106] The British government and the Bank of England were furious at these proposals, especially at Finance Member Blackett's role in formulating them. Blackett, who had gained considerable popularity in India for his stand, was not asked to resign only to avoid adding to his "halo of a confessor... that of a martyr" and also to "conceal", as far as possible, the differences between the Government of India and the Secretary of State. The "wisest course" was thought to be to "put the Bill into cold storage until Blackett has left the country and when the time comes to re-introduce the Bill".

[103] Secretary of State to Viceroy, Private, 18 August 1927, *L/PO*/316, IOR, London.
[104] See Secretary of State to Viceroy, 2 November 1927, *L/PO*/316, IOR, London.
[105] Memorandum of RBI Bill, 5 November 1927.
[106] *Ibid.*; and Viceroy to the Secretary of State, 7 September and 15 September 1927, *L/PO*/316, IOR, London.

Further, for the future, Birkinhead, the Secretary of State, made it absolutely clear:[107]

> We intend firmly to adhere to the *pure gospel*—a shareholders' Bank, no political influence direct or indirect and no Gold Mohur [Gold Currency]. If India wants a Bank on these terms it can have it. If not it must do without as long as I am Secretary of State.

The supremacy of Whitehall on this question was thus firmly asserted and the Bill was for the time being abandoned, mainly on the ground that the Legislature refused to "accept provisions which in the eyes of the Government would protect the Bank from political influences".[108]

Significantly, the chief ground of the Indian capitalists' opposition to the government proposals was that it failed to achieve what was for them and the critics of the government the "main attraction of the Reserve Bank..., that it [would] take away the power of control of currency and dictation of it from whitehall... from six thousand miles away".[109] It was felt that the government proposals regarding the capital and directorate of the Bank did not "ensure... that the bank will be carried from the point of view of serving the requirements of India first and foremost and the requirements of anybody else, including... even the requirements of England, after India's best needs are served".[110]

The capitalists were afraid that placing the responsibility of the directorate of the Bank on private shareholders would lead to a situation much worse than before, where the influence of Whitehall and the India Office would be replaced by a "set of persons completely irresponsible, completely ungettable at".[111] The fear was that non-Indian businessmen and financiers in India would thus acquire a dominating position.[112] Besides, it was pointed out that in the government proposals the shareholders would have "a paltry 5 crores [50 million]" investment, that too with guaranteed dividends as in the railways. Their "stakes" in the proper running of the Bank would thus be marginal. "The idea of a private capital company" for the purpose of the bank was therefore "an idea which [had] only to be mentioned in order to be rejected".[113] The capitalists instead favoured the principle of a State Bank.[114]

[107] Birkinhead to Irwin Viceroy, 22 September 1927, *L/PO*/316, IOR, London, emphasis mine.

[108] India Office note on Reserve Bank, 30 November 1932, *L/F*/5/191, IOR, London.

[109] Purshotamdas in *LAD*, Vols IV and V, 31 August 1927, p. 3741; and G.D. Birla in *LAD*, Vol. I, 28 January 1927, p. 74. Also see, protest by FICCI, President, Dinshaw Petit at the Secretary of State's interference in the Reserve Bank Question, FICCI, *AR*, 1927, pp. 7ff.

[110] Purshotamdas in *LAD*, Vols IV and V, 31 August 1927, p. 3744.

[111] *Ibid.*, p. 3741.

[112] G.D. Birla in *LAD*, Vol. I, 25 January 1927, p. 75.

[113] Purshotamdas, *LAD*, Vols IV and V, 31 August 1927, pp. 3741–42.

[114] Resolution, IICC, *AR*, 1927.

Further, it was said that private capital was brought in to have "a nominal electorate", if not a "sham electorate", in the name of ensuring that the Bank had "independent directorate".[115] The capitalists also accused the government of not bringing about a single amendment, out of the large number of amendments put forward, to meet their demand that the directorate of the Bank "should be predominantly Indian".[116]

Control over the Bank by *representative* Indians was thus one of the basic demands of the capitalists. It was with this perspective that Purshotamdas put up a spirited defence of the demand, strongly made in the Assembly by Lala Lajpat Rai, Madan Mohan Malaviya and others, that the legislature should form a part of the electorate of the Bank. The government argument that this would open the Bank to "political influence" was dismissed on several counts.

First, it was said that the very "idea of keeping the Bank free from political influence" was a "sham". Even the business community, who would be the electorate in a private shareholders bank, could not free itself of a political outlook however much it might so desire. In fact, Purshotamdas argued that his own constituency, the Indian Merchants' Chamber, was forced in response to government action to be "more deeply political" than any other commercial constituency.[117]

Second, it was pointed out that "political influence should be avoided in every country which has full *democratic institutions*", because there "the party in power has all the patronage at its command and therefore anything which may have open political influence means the influence of the party...". In India, however, "it is the Government that have the patronage, it is the Government that can exercise political influence. The only difference is that... [they] will not call that 'political'". The "boot" was therefore clearly "on the other leg", i.e., rather than guard the Bank against the influence of the non-official benches of the Legislature there was need to guard it against the influence of the "executive", the government.[118]

Third, the idea that in the existing conditions the Indian Legislature could exercise any political influence even faintly comparable to the far greater influence of the government was ridiculed. As Purshotamdas put it on the floor of the Legislative Assembly, "to say that the Legislatures of India, as at present constituted..., are likely to exercise any influence which can count, or which is more sinister or more anti-Indian than the

[115] Purshotamdas, *LAD*, Vols IV and V, 31 August 1927, p. 3744.

[116] *Ibid.*, pp. 3745–46. The IICC passed a resolution demanding that the directorate of the Reserve Bank "must contain an *effective* and *elected* Indian majority of the Indian commercial community". IICC, *AR*, 1927, emphasis mine. B.F. Madon who moved the resolution gave several reasons why it was necessary to have "patriotic Indians" on the Board of the RBI. *Ibid.*, p. 45.

[117] *LAD*, Vol. I, 6 February 1928, pp. 157–58.

[118] Purshotamdas, *LAD*, Vols IV and V, 31 August 1927, p. 3744.

political influence exercised by the Government of India as at present constituted, is a proposition which will require a good deal of beating for its extraordinary extravagance".[119]

It was perhaps keeping in mind the political structure and the consequent power balance in colonial conditions that Purshotamdas, while arguing for the formation of a Reserve Bank with greater control of those who would run it on national lines, was not "prepared to expect financial swaraj in this measure". Arguing against those who expected so, he said that it was not possible to "have financial Swaraj before we have political Swaraj, because both finances and military power are important to political supremacy".[120] The ultimate solution was thus, yet again, seen in political independence.

Before going on to discuss the second phase of the controversy over the Reserve Bank, a brief mention may be made of some other objections that were put forward by the capitalists at this stage regarding the various government proposals.

First, it was said, "under the scheme of bullion standard as proposed under this Bill India can never get a gold currency even after 20, 30 or 40 years". What was necessary, on the other hand, "to prevent future manipulations by the Government" of the currency system of India was a Gold Standard with gold currency.[121] The very function of the future Reserve Bank, asserted B.F. Madon, was to maintain India's currency at par with gold, safeguard her gold reserves which were repeatedly transferred to England by selling unlimited amounts of Council Bills, and to control credit.[122] All this could be achieved only if a Gold Standard with gold currency was adopted in India.

Second, it was pointed out that the schedule of banks to be brought under the control of the Reserve Bank contained very few banks controlled by Indians—only seven out of 26. And out of these seven, one, Allahabad Bank, was controlled by a British bank, the P & O Bank, and another, the Imperial Bank, "(owed) its existence a great deal to assistance from Government".[123] If the new Reserve Bank was to act as a bankers' bank in the best interest of India, mainly for the benefit of Indian industries and trade, then "we should see to it that more Indian banks are included in the schedule and those banks which have not much connection with Indian business and trade are excluded".[124]

[119] *LAD*, Vol. I, 6 February 1928, p. 158.
[120] *LAD*, Vols IV and V, 31 August 1927, pp. 3743–44.
[121] G.D. Birla, *LAD*, Vol. 1, 25 January 1927, pp. 74–75. See also Chapter 3, on the Gold Standard.
[122] IICC, *AR*, 1927, pp. 43ff.
[123] Purshotamdas, *LAD*, Vol. 1, 25 January 1927, p. 70.
[124] G.D. Birla, *LAD*, Vol. 1, 25 January 1927, pp. 75–76.

Lastly, it was said that as it is there were very few indigenous banks which were large enough to qualify to be included in the schedule of the Reserve Bank, the condition that these banks would have to compulsorily put $7\frac{1}{2}$ per cent of their current account deposits and 3 per cent of their period deposits with the Reserve Bank would seriously threaten the very existence of these fledgling indigenous banks if they were brought under the Reserve Bank under these conditions.[125]

Vb. The Second Phase, 1930–33: The British View

With the commencement of the constitutional discussions in the Round Table Conferences (RTCs) in the early 1930s, the question of the transfer of responsibility in the crucial area of finance became the major bone of contention. As discussed in Chapter 3 the British government anticipated that Indian delegates to the RTC would press strongly for a complete surrender of financial control. Britain was however unwilling to concede this demand as it would threaten British imperial and business interests, especially the maintenance of remittance on account of home charges and the servicing of foreign investments and loans.[126] The Reserve Bank was seen as one crucial component of a strategy for safeguarding these interests.

In December 1930, an India Office note argued that, "as the Government of India becomes decreasingly bureaucratic and increasingly political in complexion", i.e., as steps were taken towards the "development of self-government in India...the creation of a Reserve Bank becomes an...urgent need".[127] The constitution of the Reserve Bank, of course, would have to be so drafted as to safeguard it from "political influence" such as that of the legislatures; and all pressures of Indian opinion on this count would have to be resisted.[128] "Until such a Reserve Bank had been created", it was considered to be "out of the question to relax the Secretary of State's control over monetary policy".[129]

In the British official as well as the non-official[130] view, in sharp contrast to the Indian view, the Reserve Bank was thus seen as one method of continuing to "safeguard" British financial interests in India. Samuel Hoare, the Secretary of State, in a meeting of the Cabinet Committee to consider financial safeguards, made this amply clear. He said: "I do definitely accept the safeguard of the Reserve Bank as being the only effective financial

[125] Purshotamdas, *LAD*, Vols IV and V, 31 August 1927, p. 3746.

[126] See Chapter 3, Section 1.

[127] Secret note called "The position of the Secretary of State in Relation to Indian Finance", 8 December 1930, *L/F/5/191*, IOR, London.

[128] See, for example, Note on RBI, India Office, 30 November 1932, *L/F/5/191*, IOR, London.

[129] India Office Note, 8 December 1930, *L/F/5/191*, IOR.

[130] See, for example, E.C. Benthall (a major leader of the European business interests in India) to David, 10 October 1933, *Benthall Papers*, Box XV, South Asia Archives, Cambridge.

safeguard in the event of the transfer of responsibility...." However, he added that though the Reserve Bank was crucial it was not enough of a safeguard. He said:[131]

> so far as I know there is no difference of opinion between the Government of India, the Treasury or the India Office upon the necessity of having general financial safeguards, *even after the Reserve Bank is set up*, and in a single sentence those general safeguards would be first of all the Reserve Bank, second the Financial Adviser [answerable to the Governor General and the Secretary of State (see pages 76–77 above)] and thirdly the special responsibilities placed upon the Governor General for seeing, for instance, that the Imperial charges are met in the Budget....

Evidently, if the Reserve Bank was to operate as a "safeguard" for British financial interests, its constitution, role and powers had to be very strictly defined, notwithstanding all the official talk of creating an "independent" bank. The following guidelines were therefore clearly laid down. First, while the Reserve Bank was to be kept free of "political"—meaning nationalist—influence, the formation of the Bank was not to "relieve the Secretary of State of his responsibility in respect of the sound handling of Indian finance as a whole".[132]

Second, the impression gaining ground among Indians at the Round Table Conference that the Reserve Bank was to fix the exchange ratio for the rupee was categorically contradicted. It was asserted that the "primary duty of the currency authority", i.e., the Reserve Bank, was to "maintain the statutory ratio, whatever that ratio may be". In fact, it was said, the only way of "protecting India" from the ill effects of a possible surrender to the pressure to abandon the fixed statutory 1s 6d ratio for a lower ratio was to "insist that in this matter *the last word will remain with the British Government*".[133]

Third, it was made clear that the powers of the Governor General in the sphere of currency legislation were not to be abated with the formation of the Reserve Bank and the introduction of the proposed constitutional changes. The new constitution must provide that the "previous sanction of the Governor-General is required to the introduction of any Bill affecting currency or exchange".[134]

Last, it was laid down that once the Reserve Bank Act was passed, it could not be amended without the approval of the Secretary of State.[135]

[131] Minutes of 21st meeting of Cabinet Committee regarding Financial Safeguards, 4 November 1932, *L/F/5/191*, IOR, London, emphasis mine.

[132] India Office Note, 8 December 1930, *L/F/5/191*, IOR.

[133] India Office Memorandum on "Why Financial Safeguards are Necessary", 17 June 1931, *L/F/5/191*, IOR, London, emphasis mine.

[134] *Ibid.*

[135] Note on RBI, India Office, 30 November 1932, *L/F/5/191*, IOR, London.

This would ensure that the future, more "political", government would not be able to allow any changes in the Bank which would negate its very *raison d'être* from the point of view of British imperialism.

Clearly, all these restrictions and provisions gave little "autonomy" or independence to the Reserve Bank and transferred virtually no financial responsibility to Indian hands. In a rare expression of open imperialist paternalism, Neville Chamberlain, the Chancellor of Exchequer, gave a reason for this. In a Cabinet meeting in November 1932 he argued that if the Indians were told that now, at the third Round Table Conference, they had got all the responsible government except finance, and that they could have that too as soon as they could set up a Reserve Bank, they would set it up at once and instantly demand financial responsibility. This they would do because "Indians...are like a spoilt, wilful, naughty child. The child has seen an open knife on the dressing table and demands that the knife be given to it". Moreover, the Indian child-people refused to listen to "our" arguments that the knife was a dangerous weapon and could harm them and others as well, and that they could have it when they grew up. They insisted on having it now because they understood "us" to mean that it was promised to them. In such a situation the only solution was to give the knife to the child in a way that it would not hurt itself. The problem, then, according to Chamberlain, was "so to present the knife to the child that it shall be satisfied that it has a knife, and yet *it shall not be able to open* it".[136] Indians could, in other words, have a Reserve Bank, in the form of a closed knife, properly sheathed and "safeguarded", so that it could not be used wilfully, trying to acquire financial autonomy and threatening vested interests.

Thus, paradoxically, the British government on the one hand made the formation of the RBI a precondition to the transfer of any financial responsibility, on the other hand they visualized the Bank in such a manner that virtually no relaxation of the control of the Secretary of State in matters of finance was on the cards. Moreover, whatever little relaxation of control that could occur with the formation of the Reserve Bank was also not possible for at least the coming few years. This was because, as it was argued in December 1930, the "Bank itself could not be created in present conditions owing to the deficiency of available gold and sterling resources".[137] In other words, the formation of the Reserve Bank, even as a "closed" knife, was to be delayed till "conditions" were suitable. And, as the capitalists cried hoarse over the years, the government did nothing to help create these suitable "conditions" such as build up a gold reserve, etc.[138]

[136] Minutes of meeting of the Cabinet Committee regarding Financial Safeguards, 4 November 1932, *L/F/5/191*, IOR, London.

[137] India Office Note, 8 December 1930, *L/F/5/191*, IOR, London.

[138] See Chapter 3, Section III in this volume.

Vc. The Indian Capitalists' Response

The Indian capitalists, demonstrating remarkable maturity, saw through the British intentions regarding the Reserve Bank. While making a comprehensive critique of the government position, they also put forward their own proposals regarding the constitution, functions and scope of the Bank. The basic difference between their and the government position was that the capitalists saw the Reserve Bank as a mechanism of wrenching control over currency and exchange from Whitehall and as an instrument of national economic development, while the government, as we have discussed above, had virtually the opposite expectations. I shall briefly outline below the capitalists' position.

The capitalists pointed out that the agreement reached at the Round Table Conference was that the Reserve Bank was to be free from any political influence, not only from that in India but from that in England as well. At the same time, the capitalists clarified that they understood the RTC agreement to mean that the Reserve Bank Board and Management was to work "from day to day as a commercial organisation pure and simple", though *"on lines laid down for the purpose of policy, by the Indian Legislature"*.[139] It appears, therefore, that when suggesting "no political influence" over the RBI, the capitalists meant that there *would* be the influence of the Legislature, or "national influence",[140] just as the British assumed there would be the influence of the Secretary of State and Whitehall.

The RBI Bill of 1933, it was said, safeguarded only against Indian political influence, while making it "completely amenable to political influence of the Whitehall through comprehensive powers allowed to the Governor General…".[141] Therefore unless the British government was

> prepared to agree to the complete immunity of the Reserve Bank from political influence from or through the Secretary of State for India in London, it is only fair to meet the strong feeling in India in favour of making State Bank the Central Currency authority. There should be only two alternatives; either a shareholder's Bank completely free from political influence on both sides of the seas; or a State Bank directly subject to the Federal Government.[142]

[139] Purshotamdas Thakurdas, Notes on Minute of Dissent on the Report of the Committee on Indian Reserve Bank Legislation (henceforth, Notes on RBI Legisl.), 1 September 1933, *PT Papers*, fl. 189, emphasis mine.

[140] For example, the FICCI President, Walchand Hirachand, was critical of the government proposals which could have the "ominous" effect of keeping out "national influence" as well. FICCI, *AR*, 1933, pp. 110–11.

[141] N.R. Sarkar, President, FICCI and BNCC, *Reserve Bank Bill*, pamphlet, undated, *PT Papers*, fl. 145; Resolution by FICCI, 11 September 1933, *Proc. of EC*, 1933, pp. 15–18.

[142] Purshotamdas, Notes on RBI Legisl., 1 September 1933, *PT Papers*, fl. 189.

One suspects that perhaps the capitalists preferred the State Bank because they hoped that it would be more susceptible to "national influence" through the Legislature and other forums.

The capitalists had clearly somewhat "softened" their position on the question of state vs Shareholder's Bank, compared to their stand in 1927–28. The Executive Committee of FICCI passed a resolution on 11 September 1933 making it clear that, "while they would prefer a State Bank, a shareholder's bank may be acceptable, *provided* complete national control is assured…".[143]

However, the government proposals, it was pointed out, did "not contemplate placing any restrictions on shareholding in order to safeguard the Bank from passing into the control of non-national or even anti-national interests".[144] Cases were cited of several other countries such as Japan, Yugoslavia and Chile where such restrictions which were necessary for "economic independence" were incorporated in the constitutions of the Central Banks.[145] The demand therefore was that national control over the Reserve Bank (if a Shareholder's Bank) should be ensured by providing that "not less than 75 per cent of the paid capital at any time [was] reserved to natural born Indians".[146] The FICCI simultaneously urged its member bodies "to do propaganda among their constituents and the public in general for subscribing to the capital of the Bank, if and when the Bank [was] constituted as a shareholder's Bank", thus "ensuring full national ownership and control".[147]

[143] FICCI, *Proc. of EC*, 1933, pp. 15–16, also in *WH Papers*, fl. 11, emphasis mine. It appears, however, that some capitalist leaders like Purshotamdas, H.P. Mody and N.R. Sarkar preferred a shareholder's bank, provided, of course, national control was assured. See Purshotamdas in *Leader*, 20 September 1933, *PT Papers*, fl. 189; N.R. Sarkar, RBI Bill, Pamphlet, undated, *PT Papers*, fl. 145; H.P. Mody, *LAD*, Vols V and VI, 12 September 1933, p. 1407. The capitalists conditional agreement to a Shareholder's Bank was perhaps partially linked to their weak position in the Assembly at this time (with the Congress members being outside it) and the crushing defeat of the opposition on the question of the state vs Shareholder's Bank. See G.D. Birla to Purshotamdas, 6 December 1933 and 20 October 1933, *PT Papers*, fl. 143. Vidyasagar Pandya, representing Indian Commerce (Madras), however, put up a valiant effort in the Legislative Assembly in defence of a State Bank and against a Shareholder's Bank, arguing that the latter would amount to handing over the "most important branches of administration to a private company—another East India Company". *LAD*, Vols V and VI, 11 September 1933, p. 1305. See also B. Das, arguing a similar position in the Legislative Assembly, *LAD*, Vols VIII and IX, 27 November 1933, pp. 2263ff. It seems that, while privately there was a qualified acceptance of the Shareholder's Bank, publicly the capitalists continued to argue for a State Bank.

[144] N.R. Sarkar, President, FICCI, and BNCC, *Reserve Bank Bill*, Pamphlet, undated, *PT Papers*, fl. 145.

[145] Some countries like England, it was pointed out, safeguarded even big public corporations against non-nationals acquiring control. *Ibid*.

[146] Resolution, 11 September 1933, FICCI, *Proc. of EC*, 1933, pp. 15–16.

[147] *Ibid*., pp. 17–18.

As regards the directorate of the Bank, it was argued that the provisions in the Bill were "so drafted as to enable the Government to have full control of the Bank for at least four years from the start". For example, the first Board of Directorate was "to be constituted entirely by Government nomination". The Governor and Deputy Governor (or Deputy Governors) were to be appointed by the Governor General in Council "on his own initiative" and the eight directors representing shareholders were to be nominated by him after consultation with local governments.[148] Pointing out that this would mean that "even after the establishment of Central responsibility and the inauguration of a responsible financial regime the Reserve Bank would continue to be controlled by the nominees of the present Government, Central and Local", N.R. Sarkar hit at the very heart of British intentions and asked: "could this be another financial safeguard?"[149] Also, it was argued in the Legislative Assembly: how, given the provisions of the Bill, could the RBI achieve the unique feat in the world of having a Central Bank, the majority of the directors of which were alien?[150]

The capitalist demand on this question was, therefore, again that "not less than 3/4ths of the total number of Directors with voting power should be natural born Indians".[151] Certain other provisions regarding the directorate were also demanded such as that the Governor and the Deputy Governor were to be appointed by the Governor General from a panel elected by the Board, that one of the two (two out of three in case there were two Deputy Governors) should be Indian, and that the "first" Central Board constituted by the Governor General should hold office only for one year, after which the Board should seek re-election.[152]

The capitalists were also critical of certain other crucial provisions regarding the scope and functioning of the Reserve Bank. There was general opposition to clauses 40 and 41 of the RBI Bill which sought to "perpetuate" the existing 18d ratio by statutorily fixing the exchange obligations of Reserve Bank on this basis. This was done, it was said, when other countries like England, America, Japan, Australia and New Zealand had all devalued their currencies drastically to meet the current crisis and to raise prices.[153] For India to have a "fixed ratio in relation to sterling", it was argued, "practically means the abdication of the right of this country to

[148] N.R. Sarkar, *Reserve Bank Bill*, Pamphlet, undated, *PT Papers*, fl. 145.

[149] *Ibid*.

[150] Vidyasagar Pandya (Indian Commerce), *LAD*, Vols V and VI, 11 September 1933, pp. 1317–18.

[151] Resolution, 11 September 1933, FICCI, *Proc. of EC*, 1933, pp. 15–16.

[152] *Ibid*.

[153] N.R. Sarkar, *Reserve Bank Bill*, Pamphlet, undated, and statement of Currency League of India regarding clause 40 and 41 of RBI Bill, 15 November 1933, *PT Papers*, fl. 145, H.P. Mody too strongly argued for a lower ratio giving similar arguments. *LAD*, Vols V and VI, 13 September 1933, pp. 1406–7 and Vols VIII and IX, 18 December 1933, pp. 339ff.

follow an independent price, currency and exchange policy, even if it were highly necessary or advantageous to India".[154] Referring to the Finance Member's threat to withdraw the Bill if these clauses were not accepted, the Currency League declared:[155]

> The country is in no hurry to have a Reserve Bank which is to be made the *instrument* for carrying out the present ruinous exchange policy.... The establishment of our right to determine the valuation of our currency is far more vital to us as a self-respecting nation than the immediate establishment of a Reserve Bank.

It was perhaps this fear that the government would use the Reserve Bank as an "instrument" to "perpetuate" the existing high ratio that led Purshotamdas to argue, for some time, that it was the function of the *legislature* to settle the ratio question and that it should do so *before* the Reserve Bank Bill was passed, as after that this question would be barred to the future legislatures.[156] At any rate, the capitalists' position on this question was put forward unequivocally in the FICCI Resolution of 11 September 1933—"that in any event the exchange obligation of the Reserve Bank should not be fixed at the ratio of 1s 6d... but that the Rupee should immediately be delinked from sterling and be stabilised [at a lower level] after wholesale prices in India have attained approximately the level of the year 1925–26, which means an increase over the present price level by about 50%".[157]

The various restrictions in the constitution of the proposed Reserve Bank which, inter alia, led to the virtual absence of any effective control of the Bank over exchange and overall currency policy[158] were criticized for another reason. It was said that the "chief danger of the enactment of retrogade and unacceptable sections of the Bill lies in the fact that in the future constitution, as outlined in the white paper, it would be rather difficult if not actually impossible, later on to effect material or fundamental changes in the Reserve Bank Act without the sanction of the Governor General".[159]

[154] N.R. Sarkar, *Reserve Bank Bill*, Pamphlet, undated, *PT Papers*, fl. 145.

[155] Statement of Currency League regarding cl. 40 and 41 of RBI Bill, 15 November 1933, *PT Papers*, fl. 145, emphasis mine.

[156] See Memoranda of discussion between Benthall and Purshotamdas, 14 June 1933, *Benthall Papers*, Box XIV, South Asia Archives, Cambridge; Discussion with H.P. Mody and Kershaw, 23 July 19(?). Purshotamdas's Diary, *PT Papers*, fl. 140, Purshotamdas to Mathuradas Vissanji, President of Currency League, 13 October 1933, and confidential memo. on Rs./Stg. Ratio, 19 September 1933, attached to G.D. Birla to Purshotamdas, 20 October 1933, *PT Papers*, fl. 145.

[157] FICCI, *Proc. of EC*, 1933, pp. 15–18.

[158] N.R. Sarkar, President, FICCI, *AR*, 1934, pp. 56–57.

[159] N.R. Sarkar, "Reserve Bank Bill", Pamphlet, undated, *PT Papers*, fl. 145.

The eventual Government of India Act of 1935 did in fact confirm these fears and was criticized for the various "safeguards" and the granting of "overriding powers to the Governor General in matters of finance". Sections 152 and 153 of the Act, it was said, denied the Federal Legislature and the Federal Ministers "the final voice in determining the currency and exchange policy of the country".[160] They were "precluded from introducing any legislation affecting coinage or currency of the Federation or the constitution or functions of the Reserve Bank of India without first obtaining the previous sanction of the Governor General...", this power being vested in the Governor General "over and above his usual power of the veto".[161]

The capitalists were also critical of the new condition in the third Round Table Conference that the Reserve Bank had to be established *before* the transfer of financial responsibility could be considered.[162] They argued that, having made the Reserve Bank a pre-condition to the inauguration of the Federation and the transfer of financial responsibility, the government was delaying the setting up of the Bank on grounds that the conditions were not ripe. They accused the government of not taking precisely the steps which were necessary for creating the conditions for the early inauguration of the Bank, such as lowering the ratio, putting an embargo on gold exports, delinking the rupee from sterling, improving the budgetary position by reducing expenditure and building up gold reserves.[163]

Lastly, the capitalists warned against the Reserve Bank giving terms which were too generous to the Imperial Bank. According to the existing proposals, the Imperial Bank was to have the Sole Agency of the RBI and also hold part of its balances at regulated rates of interest. It was said that in this situation the powerful Imperial Bank could "set at naught the credit policy of the Reserve Bank". Also, any "exceptional facilities or privileges granted to it" could obstruct the development of the indigenous joint stock banks with whom the Imperial Bank was effectively competing at this time.[164]

[160] FICCI to Viceroy, 30 July 1938, *L/E/9/1150*, IOR, London. It was also pointed out how the actual transfer of power regarding finance was "illusory" as almost 90 per cent of Federal revenue expenditure was made non-votable and was controlled by the Governor General. See *ibid.* and FICCI Resolution on Constitutional Reforms, 1934, *WH Papers*, fl. 6(a).

[161] FICCI to Viceroy, 30 July 1938, *L/E/9/1150*, IOR; FICCI, *Corresp.*, 1938, pp. 146–51 and FICCI, *Proc. of EC*, 1938, pp. 31–33.

[162] Purshotamdas' speech in Joint Select Committee on Indian constitutional Reforms, 23 May 1933, *PT Papers*, fl. 138 and his Notes on RTC discussions, *PT Papers*, fl. 133 and Walchand Hirachand in FICCI, *AR*, 1933, pp. 110–11.

[163] Joint Statement on the White Paper, by Purshotamdas, G.D. Birla, Walchand Hirachand and Lala Sri Ram, *The Times of India*, 22 March 1933. It was particularly emphasized that maintenance of 1s 6d ratio and the early inauguration of the RBI were contradictory. See, for example, A.D. Shroff to Osborne Smith, 22 November 1933, *PT Papers*, fl. 145.

[164] See N.R. Sarkar, *Reserve Bank Bill*, Pamphlet, undated, *PT Papers*, fl. 145; Resolution, 11 September 1933, FICCI, *Proc. of EC*, 1933, pp. 15–18; V.S. Pandya and C. Jehangir in *LAD*, 11 September 1933, Vols V–VII, p. 1319 and 12 September 1933, p. 1415.

On the positive side, the Indian capitalists wanted the Reserve Bank to perform certain crucial developmental functions which were not visualized in the Bill; nor were they adequately taken up after the formation of the Bank. To make available the benefits of an institution like the Reserve Bank "to the country's agricultural advancement", it was said, the Reserve Bank "should be empowered to make loans and advances" to the rural community "on the security of movable goods, merchandise and warehouse receipts as recommended by the Central Banking Enquiry Committee".[165] The complex problem of rural credit could not be solved merely through legislation against moneylenders. Land mortgage banks, cooperative credit societies, etc., were needed. The Reserve Bank was therefore urged to organize credit and the levelling of rates of interest not only in urban areas but also in rural areas.[166]

The Reserve Bank was also pressed to organize industrial finance, so that the "dormant financial resources of the country" could be utilized for industrial development, by casting "the net wider and gather[ing] the small amounts that lie scattered over the entire face of the country".[167]

Lastly, one of the most persistent demands that the capitalists made year after year related to the large number of "indigenous" banks in the unorganized money market which serviced the enormous demand for credit in internal trade, agriculture, middle and small industries and facilitated inland remittances through *hundis*, etc. The indigenous banks, it was claimed, handled a greater amount of credit and covered a much wider area and number of people than the joint stock banks in the organized sector.[168] On the lines of the recommendations made by the Central Banking Enquiry Committee, the capitalists urged that these indigenous banks be brought under the regulation of the Reserve Bank and be allowed rediscounting facilities. This was a demand that the capitalists made repeatedly, though unsuccessfully, over the years.[169] As late as 1945–46, in the course of the discussions regarding the proposed Banking Bill, the capitalists again made the same demand, pointing out how leaving the indigenous banks out of the purview of the Reserve Bank amounted to leaving the major part

[165] Resolution of FICCI, 11 September 1933, FICCI, *Proc. of EC*, 1933, pp. 15–18.

[166] Resolution, FICCI, *AR*, 1935, p. 65; and Presidential Speech of Padampat Singhania, FICCI, *AR*, 1936, pp. 13ff.

[167] *Ibid.*; and Presidential Speech, FICCI, *AR*, 1934, pp. 38–39.

[168] Chunilal Mehta, President, Bombay Shroff Association to James Taylor, Deputy Governor, RBI, 10 June and 24 September 1937, *PT Papers*, fl. 195. It was pointed out that there were about 350 places where there were branches of joint stock banks while there were over 2,575 moderate-sized townships and 700,000 villages surrounding them. It is in the latter area that indigenous banks played a crucial role. *Ibid.*

[169] See, for example, FICCI, *Proc. of EC*, 1933, pp. 15–18; N.R. Sarkar, *RBI Bill*, Pamphlet, *PT Papers*, fl. 145. Presidential Speech, FICCI, *AR*, 1934, pp. 42, 58–59; Resolution in FICCI, *AR*, 1935; Presidential speech, FICCI, *AR*, 1936, p. 15; Bombay Shroff Association to RBI, 10 June and 24 September 1937, *PT Papers*, fl. 195; FICCI to RBI, 4 July 1940, FICCI, *Corresp.*, 1940, p. 4.

of the credit structure in India in the unorganized sector.[170] The other demand that the capitalists made at this stage was for steps to protect Indian banks from the competition of foreign banks.[171]

However, in actual operation the Reserve Bank failed to take up adequately virtually any of the demands made by the capitalists and Indian nationalist opinion. Its main function in the colonial period remained largely the routine task of enabling smooth remittances to Britain. A task it performed ably even during periods of crisis such as during the Second World War, often at great cost to India, as will be discussed in the following chapter. Also, it was able, to some extent, to rationalize the organized banking sector. As for the rest, quite contrary to Indian hopes, the Bank had little to show either in terms of it enabling the transfer of financial responsibility to India or in terms of its acting as an instrument of basic changes or innovations for the development of Indian agriculture, industry, trade and indigenous banking.[172]

[170] FICCI to GOI, Legislative Dept., 5 February 1945 and 28 October 1946, FICCI, *Corresp.*, 1945, pp. 186–87 and 1946, p. 208.

[171] Presidential Speech, FICCI, *AR*, 1945, p. 10.

[172] See, for a brief survey of the functioning of the Reserve Bank, B.R. Shenoy, "The Reserve Bank of India", in Mukherjee and Dey, eds, *Economic Problems of Modern India*, Vol. II, pp. 353–81.

FIVE

Finance and Monetary Policy III: The War and After

I. Sterling Balance

The period of the Second World War saw Britain in the throes of a major economic and financial crisis. To mitigate this crisis Britain drew heavily on Indian material and financial resources. The last years of British rule, when supposedly "decolonization" or the withdrawal of British imperialism was gaining rapid momentum, actually saw perhaps the most ruthless exploitation of India.

Britain, to meet her growing military and civil requirements in the course of the war, built up huge external liabilities with the rest of the world, especially India. In addition to the massive increase in military expenditure in the Indian budget,[1] India, though she herself faced severe shortages, supported the British war effort by supplying enormous quantities of goods and services in the form of "forced" loans. The massive credits or the sterling balances (estimated at 17 times the annual revenue of the Government of India and one-fifth of Britain's gross national product in 1947)[2] that got built up in India's favour as a result became a major point of controversy in this period.

In this section, I will discuss the Indian capitalists' position on this question in some detail. I will show how they opposed the British effort to pass the burden of the war on to India, first by building up the huge sterling balances and then by attempting to default on their payment. I will also discuss the position the Indian capitalists took regarding how the sterling balances, once they were built up, were to be used so as to maximize the

[1] See fn. 2, Chapter 3 in this volume.
[2] Tomlinson, *Political Economy*, p. 140.

economic benefit to India, reduce her external dependence and assist the projected planned developmental efforts.

To begin with, the Indian capitalists pointed out that the rapidly growing sterling balances (reaching a peak of Rs 17,320 million in 1946, see Table 5.1) were compulsorily accumulated, without the consent of the Indian people, by using the "dictatorial power and domination of Great Britain".[3] It was therefore argued that these balances were not to be treated as a loan willingly given to Britain but as "commercial obligations" on "current account", "forced upon India" to prosecute a "war of power politics" in which India was made a partner without consulting her or getting her consent.[4]

Table 5.1

Statement of Sterling Balances of the Reserve Bank: 1939–47

	Year	*Rupees (Million)*
April	1939	710
April	1940	1,410
April	1941	1,390
April	1942	2,810
April	1943	5,610
January	1944	8,740
April	1945	13,850
April	1946	17,320
April	1947	16,010
December	1947	15,180

Source: PT Papers, fl. 381 (figures in original sources were in crores).

Moreover, the manner in which the sterling balances were built up was shown to have serious consequences for the Indian economy. The balances got accumulated as a result of the "large purchases of goods and services... made by the British Government, in India," against sterling bills or securities placed in reserve in London. For these large exports of goods and services, India, thus, received no "tangible quid pro quo" other than

[3] A.D. Shroff, FICCI, *AR*, 1945, p. 29; FICCI, Press Communique, 7 September 1945, FICCI, *Corresp.*, 1945, p. 73; M.A. Master, President, FICCI, Press Communique, 9 August 1947, FICCI, *Corresp.*, 1947, p. 156.

[4] Lala Gurusharan Lal, Presidential Speech, FICCI, *AR*, 1947, pp. 13–14; A.D. Shroff, FICCI, *AR*, 1945, p. 29. One reason why the capitalists argued that the sterling balances were commercial balances on current account and not loans raised for the war effort in the Indian market was that it would be much easier to get the post-war international monetary organizations like the IMF to put pressure on debtor countries to clear the former kind of commitments than the latter. See, for example, C. Seshachalam, Andhra Chamber of Commerce, in FICCI, *AR*, 1945, pp. 32–33.

"IOUs of His Majesty's Government".[5] The procedure was similar to that adopted during the First World War—the Reserve Bank of India expanded currency or issued notes against its sterling holdings held in reserve in London to pay for the British war purchases in India.[6] The rapid expansion of currency that occurred as a result (the total notes issued increasing by nearly *four times* between 1939 and 1944, mainly against sterling securities, as Gold coin and Bullion remained constant [see Table 5.2]),[7] combined with the fact that large quantities of goods and services were made available to England for which no goods or services came back to India in return, led to severe shortages and a runaway inflation.[8] Such was

Table 5.2

Reserve Bank: Notes Issued and Assets Held Against them, 1939 and 1944
(in Millions of Rupees)

	August 1939	*July 1944*
Total Notes Issued	2,170	9,450
Gold Coin and Bullion	440	440
Sterling Securities	610	8,280
Rupee Coin	750	150
Rupee Securities	370	580

Source: G.D. Birla, *Indian Currency in Retrospect*, Allahabad, 1944, p. 21.

[5] Birla, *Indian Currency in Retrospect*, pp. 18–21. See also, conclusions of War Cabinet meeting, 27 July 1943, *L/PO/* 325, IOR, London.

[6] Birla, *Indian Currency*, pp. 18–21; Secretary of State, L.S. Amery, Secret Note on Economic Situation in India, 11 August 1943, *War Staff Papers* (*L/WS*), 1/581, IOR, and War Cabinet Note on Indian Sterling Balances, 1 August 1942, *L/PO/* 325, IOR, London.

[7] The FICCI in a Communication to Government of India, Finance Dept., 14 January 1943, cited similar figures and gave the following figures which shows how sterling securities were rapidly replacing Gold coin and Bullion as assets against which notes were issued.

	Percentage of Gold Coin and Bullion to Notes Issued	*Percentage of Sterling Securities to Notes Issued*
1938–39	21.1	31.7
1939–40	19.5	34.39
1940–41	17.1	50.29
1941–42	13.9	51.55
1 January 1943	7.4	69.86

Source: FICCI, *Corresp.*, 1942, p. 360.

[8] See L.S. Amery, Note on Economic Situation in India, 11 August 1943, *L/WS/*1/581, IOR; G.L. Mehta, FICCI President and M.M. Bhatt, IMC in FICCI, *AR*, 1943, p. 20 and pp. 49–50 respectively. *The Eastern Economist* (henceforth *EE*) criticized the Government of India for using the RBI to finance British expenditures without raising corresponding funds, e.g., by issuing rupee loans, but by simply issuing notes against sterling in England. This, the journal argued, was the worst form of inflationary finance, and the sterling credits represented the involuntary, forced savings inflicted on the Indian people, 26 November 1943, p. 981.

the "self-denial verging on starvation" that India had to undergo to make these goods and services available to the allied powers, argued G.D. Birla, that there were "millions who died of famine".[9]

The capitalists also underlined the significance to UK of the large sterling balances built up by India. It was pointed out that by the end of 1945, out of the total external liabilities owed by UK of about £3,181 million, India held the largest proportion of about 35.8 per cent (about £1,138 million), higher than all the other empire countries put together, and about $1\frac{1}{2}$ times the size of the US loan to UK.[10] (See Table 5.3 for another estimate of the breakdown by areas of the external liabilities of UK in the middle of 1945). In 1944–45, the sterling assets of the RBI (i.e., Indian lending to Britain) were growing at a rate greater than Rs 10 million per day.[11] Besides, it was pointed out that this large amount of "loan" in the form of the total sterling balances was raised just in four years from a country with a per capita income that was only one-twentieth that of UK and one-twenty-eighth of the USA.[12]

Table 5.3

External Liabilities of UK—by Areas: 30 June 1945 (in £ Millions)

Sterling Area Dominions	384
India, Burma and Middle East	1,732
Other Sterling Area	607
Total Sterling Area	2,723
North and South America	303
Europe (including dependencies of European countries)	267
Rest of World	62
Total Liabilities	3,355

Source: FICCI, *Corresp.*, 1945, p. 100.

Apart from securing this large loan from India at a time of great need, there were certain other advantages that accrued to Britain. B.M. Birla, a member of the Reserve Bank Board, pointed out how Britain took advantage of India being a "subject nation" to force the Reserve Bank to give her these loans at no more than a bare $\frac{3}{4}$ per cent interest, when it would have cost the British exchequer about $2\frac{1}{2}$ to 3 per cent in interest if these loans were raised in normal course. India thus lost many millions in

[9] Birla, *Indian Currency*, p. 21.

[10] Note on Sterling Balances, *PT Papers*, fl. 269, NMML. The proportions held by Australia, New Zealand and South Africa (of total British external liabilities) were said to be only 3.7 per cent, 2 per cent and 2 per cent respectively. *Ibid*. See also conclusions of War Cabinet meeting, 27 July 1943, *L/PO/*325, IOR; *EE*, 28 July 1944.

[11] *EE*, 22 February 1946.

[12] Note on Sterling Balances, *PT Papers*, fl. 269.

interest per year without the country knowing about it. Birla, however, was despondent about being able to do anything about this in the Board, though he felt the necessity of registering a "formal protest".[13] The FICCI, in January 1943, protested against this state of affairs where, while India was not allowed to utilize her growing sterling credits, they were being employed by the British government to finance the British war efforts at a "nominal rate of interest".[14]

Further, it was said that the sterling balances *helped strengthen the sterling*, especially as about 25 per cent of the balances "held by other countries in Britain represented transfer of dollars earned by these countries to the Empire Dollar Pool against which sterling balances were credited to these countries".[15] A.D. Shroff, in a hard hitting statement, said that the forcible linking of the rupee to sterling since September 1931 (and the RBI Act not allowing the Reserve Bank to hold dollar securities)[16] resulted in making "available for the maintenance of the value of sterling all that India out of her favourable trade balance [could] contribute of the world currencies that India obtain[ed] every year". Further, he questioned the strange logic of the Finance Member's argument that since India held sterling balances to the tune of about £1,000 million, it was in her interest to strengthen the sterling bloc, saying—"you link the rupee forcibly to sterling, you force us to accumulate sterling and then you tell us that we have a substantial interest in sterling and so we must see that the sterling bloc is strengthened".[17]

Lastly, it was pointed out that through the mechanism of allowing sterling balances to build up in India's favour in return for goods and services made available to Britain, the latter was passing on inflation to India. This was because while Britain received the goods and services it needed badly without paying for them, thus containing inflation in Britain, India received only a paper claim in return, which she could not use to purchase abroad (at least for the time being), leading to severe shortages and inflation in her own economy.[18]

Ia. British Motives

Britain was aware of the significance of the "growing debt to India"—"by far the largest item in the aggregate overseas liabilities of the United

[13] B.M. Birla to Purshotamdas, 1 June 1942, *PT Papers*, fl. 269.

[14] FICCI to Govt. of India, Finance Dept., 14 January 1943, FICCI, *Corresp.*, 1942, pp. 360–61.

[15] Press Statement by FICCI, 2 March 1945, FICCI, *Corresp.*, 1946, pp. 91–92; see also section II in this chapter.

[16] Purshotamdas to Sri Ram, 11 June 1942, *PT Papers*, fl. 269.

[17] FICCI, *AR*, 1945, p. 28.

[18] See, for example, J.P. Patel, E.I. Cotton Association, Bombay, FICCI, *AR*, 1945, pp. 78ff.

Kingdom"—and the burden its repayment would involve, and was therefore contemplating a scaling down or a default of the debt, on lines similar to that adopted during the First World War.[19] Churchill, the Prime Minister, declared in a characteristically forthright manner: "It was impossible to transfer very large sums from one country to another and any attempt on our part to make *repayment on this scale must*, in the last resort, *result in putting an unbearable burden on the backs of the British work people.*"[20] The Chancellor of the Exchequer also pointed out how the debt would severely aggravate the "greatest economic difficulty" Britain was going to face after the war, i.e., how "to preserve equilibrium in our balance of payments with the rest of the world" and "pay for the imports needed to maintain a tolerable standard of living for our people".[21]

The Prime Minister and the Chancellor of the Exchequer were therefore of the view that steps be taken to see that the sterling balances do not accumulate. The suggestion was broadly that the War Financial Settlement of 1940, regarding the division of the war expenditure between Britain and India, be altered. Now that the war had spread to the Far East with the entry of Japan, India should bear a much greater proportion of its cost. India should also bear all or part of the cost of the war in Libya, Burma, Persia, Iraq and China as the war effort in these areas "should be regarded as an integral part of the defence of India". "India's contribution" thus was to be "increased to a level which [was] fair...and *which [would] prevent the accumulation of dangerously large sterling balances*".[22] The scenario that Britain "defended" India against the enemy and then, if successful, was turned out herself by India after the war and was left with an immense financial debt to India, was clearly not acceptable to the Prime Minister. As he put it, "this is a singularly ill-contrived world but not so ill-contrived as that".[23]

The Government of India and even the Secretary of State for India were, however, not in total agreement with the view outlined above. Their disagreement was significant both as a pointer towards their assessment of the Indian capitalists' position and for an understanding of how the Government of India and Her Majesty's Government differed on the perceptions of *imperial* interests. The Government of India was generally forced to take into account and be more sensitive to the political and economic situation in India, in order to facilitate the maintenance of the long-term interests of the empire.

[19] See, for example, Extracts of conclusions of War Cabinet meeting, 27 July 1943, *L/PO*/325, IOR, London.

[20] *Ibid*., emphasis mine.

[21] Memorandum by the Chancellor of the Exchequer to the War Cabinet, Secret, 30 July 1942, *L/PO*/325, IOR, London.

[22] Memorandum by the Chancellor of the Exchequer, 30 July 1942 and Note by the Prime Minister, 22 September 1942, *L/PO*/325, IOR, London.

[23] Telegram, Prime Minister to Viceroy, Private, Personal and Most Secret, 24 September 1942, *L/PO*/325, IOR, London.

The Viceroy, for example, highlighted the fact that any attempt to reduce the sterling balances by increasing India's war contribution would have "disastrous" political and economic consequences. First, it was pointed out that even the moderate political opinion in India will not stand for this, and "those sections of commercial and well to do public which are disposed to be sympathetic now will certainly be alienated...".[24] The danger of the Indian members of the Viceroy's Executive Council, particularly the capitalists like H.P. Mody and N.R. Sarkar, resigning on this question, and the government not finding suitable Indians to replace them, was noted.[25] Further, it was feared that the Indian members who were unhappy even with the existing 1940 settlement would refuse to take responsibility for increasing India's contribution.[26] The government anticipated their (Indian members') line of reasoning to be that "having supported firm action against Congress [in the Quit India movement] they had done enough unpopular things for the time being", and they therefore would not give in on this question.[27]

Even the Secretary of State pointed out to the War Cabinet that losing "Indian cooperation in the Government of the country" by pressing for "revision" of India's war contribution would lead to the "very catastrophe which we are trying to prevent the Congress Party from precipitating—a dislocation of the vast and complicated machinery of government in a great country which is, and must remain, the heart of one of the most vital theatres of war". Also, he argued that Britain would in such a situation suffer credibility "in the estimation of the USA...of world opinion [and] of our own people".[28]

Second, it was feared that once the Board of the Reserve Bank, which had a "democratically elected" "Hindu" majority (including several capitalists) with "strong Congress affinities", came to know of the British government's "reservations" regarding the payment of the debt to India, they would demand payment in other forms, i.e., in dollars or gold rather than through the "continuous expansion of rupee currency against sterling assets". And since "His Majesty's Government would...not be prepared to

[24] Viceroy to Secretary of State, 31 July 1942, *L/PO/* List A–8, IOR, London.

[25] *Ibid.*; and Viceroy to Secretary of State 2 October and 7 December 1942, *L/PO/*325, IOR. N.R. Sarkar had circulated a note on the question of India's war contribution to the Indian members of the Council and his line was generally accepted by H.P. Mody, Sultan Ahmed, Aney and Ambedkar. It was said that "this group of five maintained its attitude with vehemence and showed no signs of compromise". *Ibid*. See also, Memor. by Secretary of State to War Cabinet, 1 August 1942, *L/PO/*325, IOR, London.

[26] Conclusions of War Cabinet meeting, 27 July 1943, *L/PO/*325, IOR, London.

[27] Viceroy to Secretary of State, 20 September 1942, *L/PO/*325, IOR, London.

[28] Memorandum by Secretary of State to War Cabinet, Secret, 1 August 1942, *L/PO/*325, IOR, London.

incur a monetary debt to America in order to gratify India's demands for dollars or gold", the RBI Board would probably "resign in protest".[29]

Third, it was pointed out that, in order to maintain the war effort, the cooperation of the Indian capitalists was necessary—a cooperation which would be threatened if an attempt was made to reduce the sterling balances by increasing India's war contribution. The Secretary of State made this very clear in a secret memorandum to the War Cabinet. He argued:[30]

> The whole body of Indian industrialists, financiers and commercial men are united in opposition to the idea that India's share of the financial burden of the war should be substantially increased. Any attempt to force upon India an unfavourable revision of the Financial Settlement (of 1940) would jeopardise their cooperation in the manufacture of munitions and other war supplies. Even if we were prepared to oust the industrialists and take over their plant, we have no one to put in their place. At the best, there would be a calamitous reduction in India's practical participation in the war effort.

Given these fears of political turmoil and the obstruction of war effort, the Government of India and the Secretary of State strongly advised against raising the question of revision of India's war contribution and making known the British government's reservations on this regard, at least so long as the war continued. For the moment they urged the War Cabinet to "let this sleeping dog lie" and "bury the revised reservation in the Treasury records" and reopen the question, if necessary, *only after the war*.[31] What was to be avoided at any cost was the "folly" of the Winstonian (Churchill) approach of "when driving to catch a train for life or death, to lean through the window and tell the taximan that you do not mean to pay the fare at the station because you have a moral counter-claim against him".[32]

[29] Memorandum by Secretary of State to War Cabinet, 5 October 1942 endorsing Telegram from Viceroy to Secretary of State, 2 October 1942, *L/PO*/325, IOR, London.

[30] 1 August 1942, *L/PO*/325, IOR, London.

[31] Memorandum by the Secretary of State to the War Cabinet, 22 September 1942, *L/PO*/325, IOR. L.S. Amery, The Secretary of State, gave the example of the First World War. He argued: "if we had, during the war...intimated to the American Government that we might wish to urge readjustment afterwards (and) put in an argumentative document giving our reasons for having the debt scaled down...(then) it would probably have stopped all further advances there and then. As it was, we did raise the matter *afterwards* and in fact ended by defaulting". Amery to Kingsley Wood, M.P. 22 September 1942, *L/PO*/325, IOR, London, emphasis mine. More or less the same strategy was now suggested for dealing with the growing war debt to India.

[32] Amery to Linlithgow, Viceroy, Private and Confidential, 28 July 1943, *L/PO*/325, IOR, Amery's fears were not without substance. B.M. Birla, a member of the RBI Board, was to indignantly question some time later, (when the question of scaling down the sterling balances was raised), the "meaning [of] our going on advancing money when the other party is

Eventually, however, the British government, including the Prime Minister and the Chancellor of the Exchequer, saw the merit of the argument put forward by the Secretary of State and the Government of India and agreed that the question of revision of India's contribution to the war should not be discussed at this stage, though on a clear understanding that they retained the right to raise the issue in the future.[33]

Having succeeded in postponing for the time being the tricky question of finding ways of scaling down India's sterling balances, the Secretary of State emphasized the point he had been making for some time that there was a silver lining to the Indian sterling accumulations which were "more likely to prove a blessing than a danger". He argued that the sterling balances with India represented a "pent up demand" which after the war should "certainly give us an advantage in getting into the Indian *market for capital goods*... ahead of others and so prime the pump for the future of British *export trade* to India". Also, he regarded the balances as "the best guarantee of continued intimate economic relations with India and as a real help in *keeping India within the British Commonwealth*".[34] However, even the Secretary of State was clear that Britain would not be in a position, after the war, to settle the huge sterling balances "over the counter" and a gradual repayment on the basis of "some sort of funding scheme" with "a very low rate of interest, e.g., one per cent or less", would be necessary.[35]

Ib. The Capitalist Response

The Indian capitalists, showing remarkable maturity, had fairly accurately anticipated the wide nuances of the British position on the issue of the sterling balances. They started a widespread campaign on this question. The campaign grew in intensity as the war drew to an end and the question of repayment became an immediate one and the British aims and motives began to become clearer and open to the public.

As early as 1942, the capitalists began to voice the suspicion that Britain would attempt to scale down its sterling debt to India using various arguments. G.L. Mehta, the President of FICCI, in a press statement expressed his "serious apprehension that India's financial liabilities would be unduly widened irrespective of her capacity to bear the burden on the

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talking of repudiation of even the existing debts". B.M. Birla to Purshotamdas, 7 January 1946, *PT Papers*, fl. 244, pt. II.

[33] See Secretary of State to Viceroy, 4 November 1942; Secretary of State's minutes to the Prime Minister, 27 October 1942 to which the Prime Minister agreed, 29 October 1942, *L/PO/*325, IOR, London.

[34] Amery to Wavell, 3 November 1943, *L/PO/*472, IOR; Amery to Kingsley Wood, 7 August 1942 and 22 September 1942, *L/PO/*List A-8 and *L/PO/*325, IOR, London, respectively.

[35] Amery to Linlithgow, 28 July 1943, *L/PO/*325, IOR, London.

ground, for example, that India's strategic frontiers now extend to the Middle East and other theatres of war—a ground which Indians are not prepared to accept".[36] He also feared that the "large...sterling balances to India's credit in England... might be appropriated on the plea of equal sacrifices for war effort".[37]

The Federation, therefore, particularly urged N.R. Sarkar and H.P. Mody, members of the Viceroy's Executive Council, to be "vigilant" and ensure that they and their other Indian colleagues do not permit the government to allow Britain to default on the "debts due to India for supply of war requirements", using the Equal Sacrifice principle put forward by Roosevelt.[38] It was argued later that even going by the equality of sacrifice principle, there was no justification for the scaling down of the sterling balances as India's contribution to the war effort was far larger than that of the UK. The net income per capita left to India after the expenditure on defence was £5, while it was £70 for the UK and £135 for the USA.[39]

Year after year, using every forum available, the capitalists campaigned against any attempt to scale down India's sterling balances or to adopt such policies as would lead to their getting frittered away. The *Eastern Economist* warned that the government insistence on treating the sterling credits as *currency reserves* and not as loans given to Britain was fraught with grave dangers. In 1920–21, the government, in an attempt to maintain an untenable exchange, had wiped out in a few months the sterling balance of £55 million raised during the First World War. It was feared that the same experience could be repeated again with the government "adopting a most dangerous deflationary policy".[40]

In June 1944 Purshotamdas and G.D. Birla gave a strong rejoinder to Keynes' plea for the fresh negotiation of Indo-British financial settlement, which the capitalists felt "amounted to a pure and simple repudiation of England's debt to India".[41] Such a proposal, Birla argued, could be made only by taking "advantage of India's political subjugation" and would not be made "to any other Dominion, because they are free". He also pointed out that the balances had been built up at a tremendous cost to India, with the burden falling mainly on the poor, resulting in "death, disease and misery". Linking the Bengal famine to the forced contribution made by

[36] 10 October 1942, FICCI, *Corresp.*, pp. 146–47; and see also, G.L. Mehta to Government of India, Finance Dept., 13 July 1942, FICCI, *Corresp.*, pp. 133–34.

[37] Press Statement, 10 October 1942, FICCI, *Corresp.*, 1942, pp. 146–47.

[38] G.L. Mehta, President, FICCI to N.R. Sarkar, Commerce Member and H.P. Mody, Supply Member, 4 November 1942, FICCI, *Corresp.*, 1942, pp. 114–16.

[39] M.A. Master, President, FICCI, Press Communique, 9 August 1947, FICCI, *Corresp.*, 1947, p. 156.

[40] *EE*, 19 November 1943, 26 November 1943.

[41] G.D. Birla, *Bombay Chronicle*, 6 June 1944 and Purshotamdas, Press Statement, 8 June 1944, *PT Papers*, fl. 324, pt. I.

India to the war, he said the "millions who died in Bengal are no less war casualties than those who died in the battlefield".[42]

The peculiar twist Keynes gave to the economic situation in India to essentially argue that because British and other allied expenditure in India was leading to inflation, relief could be got to the poor classes if the whole expenditure was debited to India, had the capitalists up in arms. This argument, said Birla, was "an insult to Indian intelligence. India need not be taught elementary economics".[43] Purshotamdas too was very critical of the argument. He asserted that "*allocation* of military expenditure [had] nothing to do with inflation" which was caused by the fact that the "amount of expenditure of goods [was] much too large" causing "scarcity of goods".[44]

Keynes' second argument, that if the financial settlement between UK and India was revised it would not increase the *real* burden on the people of India, was described by Purshotamdas as "fallacious" and "cynical". It was admitted that the entire sacrifice of resources in *real terms* was met by India *now*, irrespective of whether future financial claims against them were built up (in the form of sterling balances) or not. However, the current starving of civil needs and over-working of machinery without replacement created a pent up demand for consumer goods and capital equipment and "it savours of cynicism", argued Purshotamdas, "to say that it does not matter whether the resources and funds that will be necessary to meet these demands in the post war period come from the UK or from India". To make up for the deprivation and sacrifices made during the war, he continued, a "development programme must command the first place on India's post-war plans and it will make a very great difference to the burden of the cost of such a programme whether it is financed from India's accumulated sterling balances or from fresh savings. To say whether UK or India pays makes no difference, renders all saving and foreign lending meaningless."[45]

Lastly, Purshotamdas took serious objection to the "veiled threat" in Keynes' argument that, if India did not "voluntarily" agree to reduce her sterling balances, then sterling itself may be depreciated leading to a "compulsory" reduction by way of depreciation in the value of the sterling balances. "In brief", said Purshotamdas, "India is being asked to commit financial suicide in order to save herself from financial slaughter."[46]

The Indian capitalists were also greatly "disturbed" at the terms of the Anglo-American Loan Agreement which, apart from suggesting a long-term funding scheme for Britain's sterling balances abroad, stipulated a certain scaling down of the sterling debt by the creditor countries by their

[42] G.D. Birla, *Bombay Chronicle*, 6 June 1944.
[43] *Ibid.*
[44] Press Statement, 8 June 1944, *PT Papers*, fl. 324, pt. I, emphasis mine.
[45] *Ibid.*
[46] *Ibid.*

writing off part of the debt as their war contribution. The capitalists condemned this talk of scaling down, calling it a "singular breach of faith",[47] and strongly protested against a bilateral agreement between the UK and the USA seeking "to impose an obligation or commitment on a third party without the consent of, or even a prior consultation with, that party".[48] Besides, it was argued that India's sterling balances were an entirely different category from the British obligations to the US under the Lease Lend Arrangements—being imposed on India rather than accumulated through an act of choice. Further, unlike in other countries like USA, Canada or Australia, the war added little to India's productive capacity, making the sterling balances "absolutely indispensable to her programme of economic development and industrialisation...".[49]

The argument that India had resorted to "profiteering" in accumulating her sterling balances by selling goods for war purposes at high prices and therefore she should scale down her demands was also firmly met. Statistics were quoted to show how India, in fact, had been compelled to sell to Her Majesty's Government at controlled rates. Often, as in the case of cotton, steel, shellac, mica, etc., supplies were made to the British government at not only well below the market rates but at rates lower than those paid by the civilians and even those paid by the civil departments of the Government of India.[50] The British Parliamentary Select Committee on National Expenditure, it was said, also confirmed this fact in its Fourth Report.[51] J.C. Setalvad, the FICCI President, described the accusation of profiteering

[47] Badridas Goenka, Presidential Speech, FICCI, *AR*, 1946, p. 10, FICCI, President, Lala Gurusharan Lal to Jawaharlal Nehru, John Mathai, Jagjivan Ram, Liaqat Ali Khan, etc., members of Interim Government, 25 September 1946, FICCI, *Corresp.*, pp. 62–65. See also FICCI resolution reiterating its "unqualified opposition to any suggestion of scaling down of the sterling balances", FICCI, *AR*, 1946, p. 14; and H. Venkatasubbiah, *Enterprise and Economic Change; 50 years of FICCI*, New Delhi, 1977, pp. 67–68.

[48] Mahomed Hussein Hashum Premji, President, IMC, speech at second quarterly meeting, 7 August 1946, *WH Papers*, fl. 92, pt. II; Badridas Goenka, President, FICCI, Press Communique, 17 December 1945, FICCI, *Corresp.*, 1945, pp. 81–83; Statement of FICCI, President, Lala Gurusharan Lal, FICCI, *AR*, 1947, p. 145. G.D. Birla argued that the RBI directors should tell the Government of India that no unilateral decision can be taken on this without India's consent. G.D. Birla to Purshotamdas, 18 November 1945, *PT Papers*, fl. 224, pt. IV. Birla also lashed out against the US suggestion that Britain scale down her debt to India. He said, "when India was a debtor country America never came to her rescue.... Now when we had paid every penny of our debt and had become a creditor country by sheer starvation, distress and misery, the only service America had rendered was to tell England that she should default and refuse to discharge a poor country's debt in full". *Amrit Bazar Patrika*, 25 September 1945, *WH Papers*, fl. 82, pt. II.

[49] B.D. Goenka, Press Communique, 7 September and 17 December 1945, FICCI, *Corresp.*, 1945, pp. 73, 81–83.

[50] FICCI, President, Kumarajah Sir Muthia Chettiar of Chettinad, FICCI, *AR*, 1944, pp. 16–18; *EE*, 22 February 1946, p. 294.

[51] *Ibid.*; and G.L. Mehta's speech in the General Policy Committee set up to discuss Post-War Reconstruction, 9 October 1945, *PT Papers*, fl. 260.

as "a figment of the diseased imagination of the London critics". He threw back this charge of profiteering at the English manufacturers who, he said, were quoting exorbitant prices for the "capital goods which India needs today".[52]

A major apprehension of the Indian capitalists was that a depreciation of the sterling would lead to a massive loss to India through the decline in the value of her sterling balances. Also, it was felt that, since more than 60 per cent of India's currency reserves now consisted of sterling securities, any depreciation in sterling would seriously threaten the entire Indian economic structure. They, therefore, repeatedly demanded that Britain must *guarantee* India's sterling balances against depreciation so that the experience of the First World War, when India's sterling assets were dissipated through currency manipulation, was not repeated. This could be done, it was said, by introducing a "Gold Guarantee clause", as given to Argentina, and the British government giving an undertaking that it "shall compensate the Reserve Bank of India for all its sterling holdings" to the extent that the sterling depreciated in terms of gold.[53]

It was this fear of the depreciation of the value of the sterling balances, combined with the fear that as the sterling no longer possessed the "status of an international currency", which was readily convertible, India would be forced to use the sterling balances to buy only British, irrespective of the prices and the suitability to India of the goods available in England, that prompted the capitalists to demand during the war period itself free convertibility into any other currency for the sterling balances.[54] They suspected that the government was refusing convertibility and was postponing the sterling balance settlement question to the post-war period, when reconstruction programmes would commence, with the intention of using India's sterling credits to assure a market for British exports after the war.[55] The capitalist demand was therefore for absolutely no restriction on the "time, place and manner of utilising" the sterling balances, and their early convertibility, so that "India should have not only the choice but also the wherewithal to make her purchase of capital goods, plants, machinery, etc., in the cheapest and best markets of the world".[56]

[52] FICCI, *AR*, 1945, p. 17.

[53] See the following for the arguments in this para: FICCI to Government of India, Fin. Dept., 14 January 1943, FICCI, *Corresp.*, 1942, pp. 358–64; FICCI Resolution and C.B. Mehta's speech, FICCI, *AR*, 1943, pp. 43–44; Resolutions in FICCI, *AR*, 1944, pp. 23–24 and *AR*, 1945, pp. 23–24; and C. Seshachalam (Andhra Chamber of Commerce), FICCI, *AR*, 1945, pp. 31–34.

[54] G.L. Mehta, Presidential Speech, FICCI, *AR*, 1943, pp. 17–18; and FICCI to Government of India, Fin. Dept., 30 September 1943, FICCI, *Corresp.*, pp. 133–36.

[55] G.L. Mehta and T.T. Krishnamachari (South India Chamber of Commerce, Madras), FICCI, *AR*, 1943, pp. 17–19, and 63–65; FICCI to Government of India, Fin. Dept., 14 January 1943, FICCI, *Corresp.*, 1942, p. 361.

[56] FICCI to Government of India, Fin. Dept., 30 September 1943; FICCI, *Corresp.*, 1943, p. 135; and G.L. Mehta FICCI, *AR*, 1943, p. 19.

It was to ensure convertibility and an early liquidation of the sterling balances that the Indian capitalists wanted the issue to be settled multilaterally in the International Monetary Conference at Bretton Woods.[57] They argued that the issue was not bilateral between India and UK because India's dollar resources were commandeered by Britain through the Dollar Requition Order, and her dollar earnings through exports to the US and the expenditure on American soldiers were converted into sterling credits through the Empire Dollar Pool. Further, it was argued that since, unlike in the case of Argentina, the Indian balances were not secured with a "Gold Guarantee Clause" against the danger of the sterling depreciating and becoming unconvertible, and neither was India, unlike the US, Australia, Canada, South Africa, etc., permitted to repatriate British investments or purchase capital goods against the sterling credits, and, further, since the sterling balances had become the largest item in the assets of the RBI and the main monetary reserve, it was only fair that the "greater justification" of the safeguarding of India's sterling balances and providing for their liquidation with international convertibility was recognized by any international monetary scheme.

However, once the Indian delegates to Bretton Woods failed to get the question of war balances included in the proposed International Monetary Fund (IMF), mainly due to the opposition of powerful countries such as the US, France and the UK, who argued that the issue be settled bilaterally between the debtor and the creditor countries, the Indian capitalists began to get more apprehensive about the convertibility of the balances and feared that they would get "blocked" in the UK. They therefore demanded that the Government of India start immediate negotiations with the British government for an "early solution of this vital question". They also repeatedly insisted that unless and until the sterling balances were settled satisfactorily, meeting India's "legitimate claims", India would not be in a position to consider the question of India's participation in the IMF and the World Bank. A.D. Shroff, a member of the Indian delegation to Bretton Woods, was particularly insistent that India should not enter into any international commitment through joining the IMF or the International Bank without "first finding a satisfactory solution of our sterling balances".[58]

Along with the threat of not joining the IMF, the Indian capitalists employed another threat. Correctly judging the British desire to keep India in the Commonwealth, they frequently, especially during 1945, threatened that India would be forced to leave the Commonwealth unless Britain

[57] The arguments in this and the following paragraph are interspersed in the following documents except where other sources are cited: FICCI to Government of India, Finance Dept., 30 September 1943; FICCI, *Corresp.*, 1943, pp. 133–35, 12 June, 14 July and 18 September 1943; FICCI, *Corresp.*, 1944, pp. 51–52, 56, 65 respectively; Press Note by FICCI President, J.C. Setalvad, FICCI, *Corresp.*, 1944, pp. 63–64; A.D. Shroff, FICCI, *AR*, 1945, pp. 26–30.

[58] FICCI, *AR*, 1945, p. 30.

made a fair settlement on the question of the sterling balances and the Empire Dollar Pool.[59]

Ic. Utilization of the Sterling Balances

From 1942 onwards, the Indian capitalists saw in the sterling balances a major opportunity for India to start on the path of independent economic development. They were aware that the accumulation of the sterling balances and the transition from India being a debtor to a creditor country, making it "possible to free [the rupee] from the apron strings of sterling",[60] was achieved at a tremendous cost to India, pushing down her existing standard of living. They did not want these sacrifices to be "rendered fruitless" and proposed the utilization of the sterling balances for the future economic development of the country, so that "the standard of living of the masses" could be raised.[61] Broadly, as we will see below, they envisaged that the sterling balances could be used to (*a*) reduce the existing hold of foreign capital in India, and (*b*) by enabling the financing of a planned and rapid increase in indigenous productivity they could help make the future Indian economy dynamic and self-sufficient.

The capitalists welcomed the government move, in the early stages of the war, to utilize a part of the sterling balances to repatriate the Government of India's sterling debt. The repatriation of India's entire sterling debt, an operation which was to be completed by March 1943, was seen as a major step in the "financial history of this country" as it would mean "a greater freedom in the management of our own monetary policy in the future".[62] The reduction of India's foreign liabilities would, it was said, ease "the pressure which sterling remittances exert on our exchange".[63] Further, such an operation would be advantageous to the country because the "high interest bearing sterling debt" would now be replaced by a "low interest bearing rupee debt".[64]

However, while welcoming the repatriation of government sterling debt, the capitalists argued that certain other items should be given priority in this regard. For example, C.B. Mehta argued in 1942 that the sterling share capital of company-managed railways and the debenture capital of

[59] See for example, J.C. Setalvad and A.D. Shroff in FICCI, *AR*, 1945, pp. 6 and 30 respectively.

[60] Article by Purshotamdas, "Currency and Exchange", published by the American Academy of Political and Social Science, May 1944, *PT Papers*, fl. 280.

[61] FICCI to Government of India, Finance Dept., 14 January 1943, FICCI, *Corresp.*, 1942, pp. 359, 361, 364; ICC (Cal.) to Government of India, Fin. Dept., 19 October 1942, *WH Papers*, fl. 614, pt. I.

[62] C.B. Mehta, Presidential Speech, FICCI, *AR*, 1942; FICCI, *Proc. of EC*, 1939, p. 75. See also Purshotamdas cited in fn. 60.

[63] C.S.R. Mudaliar, Presidential Speech, FICCI, *AR*, 1940, pp. 10–11.

[64] C.B. Mehta, FICCI, *AR*, 1942, p. 12.

Port Trusts should have priority over the government debt for purposes of repatriation, not only because the former generated a relatively higher rate of interest but also because foreign control over such areas prevented their being used to generate indigenous industrial development.[65] The capitalists, therefore, welcomed the government's taking over of some of the company-managed railways and urged that it take over the others whose contract periods had ended or were about to end—especially now that the traditional government argument of "financial constraints", put forward, for example, in 1931 and 1937, no longer held, given the accumulation of large sterling credits in favour of India.[66] Apart from the Railways and the Port Trusts, the capitalists demanded that foreign-held "debentures of Municipalities, Improvement Trusts and loans taken by other public bodies, as also foreign investments in public utility concerns... be acquired immediately".[67]

Increasingly, however, opinion was gaining ground among the capitalists that "India's accumulating sterling credits should in the *first instance* be utilised to repatriate British *commercial investments* in India...".[68] Sterling investments in Indian industries like jute, rubber, oil, coal and tea, which appeared on the London Stock Exchange, could thus be "acquired (by) Indian nationals in exchange for the sterling resources".[69] The capitalists argued this position on several grounds.

First, it was said that it would be far more remunerative for India to use her sterling balances to acquire British investments "that are easily earning more than ten per cent (at) the present market rates" rather than have the balances "invested in half to one per cent Government loans" as done at present.[70] Also, it was said, the liquidating of the sterling balances in this manner would, on the one hand, "minimise the difficulties of the 'transfer problem' in the post-war years" and, on the other, help the British war effort by making "available the sterling invested by the British nationals (in India) for reinvestment in British Defence Bonds".[71]

[65] *Ibid.*, pp. 12–14.

[66] FICCI to Government of India, Dept. of Communications, 5 November 1941, FICCI, *Proc. of EC*, pp. 34–35; Presidential Speech, FICCI, *AR*, 1942, pp. 12–14; A.L. Ojha, Presidential Speech, FICCI, *AR*, 1941, pp. 16–17.

[67] ICC (Cal.) to Government of India, Fin. Dept., 19 October 1942, *WH Papers*, fl. 614, pt. I. A.L. Ojha welcomed the government purchase of the Bengal, Bombay, and Madras Telephone companies, the licences of which were to expire in 1943. FICCI, *AR*, 1941, pp. 16–17.

[68] See, for example, resolution passed in FICCI, *AR*, 1943, pp. 41–42 and FICCI, *AR*, 1944, pp. 22–24, emphasis mine.

[69] Presidential Speech, FICCI, *AR*, 1942, pp. 12–14. Note that unlike the other categories of repatriation, viz., railways, public utilities, etc. the repatriation of British commercial investments involved take over not by the government but private Indian individuals. See also W.G. Abhayankar to Purshotamdas, 25 August 1941, and enclosure, *PT Papers*, fl. 244, pt. I.

[70] ICC (Cal.) to Government of India, Fin. Dept., 19 October 1942, *WH Papers*, fl. 614, pt. I.

[71] Presidential Speech, FICCI, *AR*, 1942, pp. 12–14. These objectives of course would be met whether the repatriation was of government loans or of foreign private investments.

Second, it was argued that the repatriation of British commercial interests would meet the long-standing demand of the commercial community that sectors, particularly "key industries", where foreign capital had established its stranglehold, should be brought under the control of Indian nationals. Further, it was added that this would also have the political advantage of setting "at rest once for all" the political opposition of the British "vested interests" in India who had been "the loudest in opposing any form of political rights and privileges to India".[72]

Third, it was pointed out that the disposing of the investments of the British nationals in India through their purchase by Indians could have another benefit. If notes in circulation were cancelled to the extent of British securities sold to Indians it would lead to a contraction of money supply in India, thus bringing about "the most effective cure against the... inflationary tendencies" that had arisen in India partially because of the manner in which the sterling balances were accumulated.[73] The *Eastern Economist*, however, warned that the Finance Member's suggestion that sterling balances would be made available only if corresponding government rupee securities were bought in India would lead to severe deflation—covering up the first mistake of having caused inflation with another mistake of bringing about deflation. Deflation was to be only in the event, and to the extent, of liquidation of British commercial investments.[74]

In order to strengthen their case, the capitalists repeatedly drew attention to how Britain redeemed a substantial part of her debt to other countries like USA, Canada and South Africa by liquidating, to a considerable extent, her marketable securities and the direct commercial investments of British subjects in these countries. Examples were given of how South Africa repatriated practically all the British holdings in the South African gold mines, Canada secured the British-owned Canadian securities and Railway stock and British investments in the USA were disposed of, often at considerable loss, to secure dollars.[75] However, the capitalists, while demanding that India should have the same right to realize a substantial proportion of her sterling credits by liquidating British investments in India, were simultaneously aware that, so long as India did not have "political power at the Centre", such a course, which was open to politically free countries, would not be permitted here.[76]

[72] Statement on India's Sterling Balances issued by S.C. Majumdar (Hindustan Cooperative Insurance), undated, *WH Papers*, fl. 72, pt. II; ICC (Cal.) to Government of India, Finance Dept., 19 October 1942, *WH Papers*, fl. 614, pt. I; N.G. Abhyankar to Purshotamdas, 25 August 1941, *PT Papers*, fl. 244, pt. I; *EE*, 17 January 1947.

[73] G.L. Mehta and C.B. Mehta in FICCI, *AR*, 1943, pp. 21, 42–43 respectively; FICCI to Government of India, Finance Dept., 30 September 1943, FICCI, *Corresp.*, 1943, p. 134.

[74] *EE*, 17 December 1943.

[75] See, for example, FICCI to Government of India, Finance Dept., 14 January 1943, FICCI, *Corresp.*, 1942, pp. 362–63; and Presidential Speech, FICCI, *AR*, 1942, pp. 12–14.

[76] Purshotamdas to N.G. Abhayankar, 27 August 1941 and Abhayankar to Purshotamdas, 25 August 1941, *PT Papers*, fl. 244, pt. I.

To sum up, then, the capitalists wanted the sterling balances to be used for the repatriation of the sterling borrowings of government and semi-government agencies, acquisition of British private investments in India and the purchase of capital goods (an aspect which will be discussed presently). They also wanted the balances to be used to build up the Reserve Bank's gold and dollar resources.[77] As to what was left over, the preference was for holding these credits in dollars or gold, i.e., not letting any sterling balances accumulate at all. Failing this, the residual sterling balances were to be guaranteed against any depreciation in the value of sterling in terms of gold or an index number of internationally traded commodities.[78]

Id. Capital Goods

Perhaps one of the most important uses the capitalists wanted the sterling balances to be put to was the acquisition of plant, machinery and other capital goods. I have argued elsewhere that the Indian capitalists had made large financial accumulations by the 1940s and were desperately looking for avenues of investment (see Chapter 1, Section I and Chapter 10, Section VIII in this volume). They were now finding the shortage of capital goods the chief bottleneck to industrial expansion.[79] Given India's overall backwardness under colonialism, in the initial years of industrial development almost all the capital goods would have to be imported, requiring substantial quantities of foreign exchange. The fortuitous circumstance of the war leading to India accumulating large sterling resources was seen as a major opportunity by the Indian capitalists of acquiring wide ranging capital goods and equipment and laying the foundations for rapid industrial development during and definitely after the war. As Badridas Goenka, the President of FICCI, put it in 1945: the sterling balances are "absolutely indispensable to [India's] programme of economic development and industrialisation, on which she is bent".[80] As the *Eastern Economist* put it even earlier in 1943, the balances were "our 'camel's hump' to ferry us over the weak waterless desert of our first five year plan".[81]

The capitalists therefore demanded that the sterling credits with India be used, as far as possible, to purchase capital goods, plant and machinery

[77] FICCI to Government of India, Finance Dept., 14 January 1943, FICCI, *Corresp.*, 1942, p. 363.

[78] *Ibid.*; Resolution in FICCI, *AR*, 1943 and 1944, pp. 41–42 and 23–24 respectively; and ICC (Cal.) to FICCI, 19 October 1942, *WH Papers*, fl. 614, pt. I.

[79] For example, the *Eastern Economist* argued in its leading article: "The most outstanding tragedy of this country in the post-war period was its inability either to manufacture or to import capital equipment" while businessmen and others had more money than they could spend. *EE*, 3 January 1947.

[80] Press Communique, 17 December 1945, FICCI, *Corresp.*, 1945, p. 82.

[81] *EE*, 16 July 1943.

for the establishment of defence and other key and heavy industries like shipbuilding, locomotives, automobiles, aircraft manufacture, heavy chemicals and machine tools, so that India could achieve "a strong and self reliant national economy" as well as become "an arsenal of the East".[82] It was also suggested that the sterling assets be used to "transfer... British owned merchant ships [which handled Indian trade] from the British Register to Indian ownership on the Indian Register".[83]

It must be noted that these were the very areas (shipping, automobiles, aircrafts, etc.) which the Indian capitalists had been trying to enter for some time in the face of heavy odds including the lack of cooperation, if not outright hostility, of the colonial government. The capitalists often pointed out how the rapid progress made by other countries, including dominions like Canada and Australia, in expanding their productive capacity and establishing heavy and defence industries, using their sterling credits and the "opportunity" provided by the war, was in striking contrast to what was permitted in colonial India. They once again explained India's predicament by the fact that she did not have the "substance of autonomy" and the "springs of economic power" were not "in the hands of the representatives of the people of this country".[84]

Further, as we noted earlier, the capitalists demanded convertibility for the sterling balances so that India could buy capital goods most suitable to her needs in the cheapest markets of the world. They firmly opposed the postponement of the settlement of the balances till after the war, with the intention of subsidizing British exports at that stage by "freezing our sterling balances only for purchases exclusively from the United Kingdom".[85] The Minister for Post-war Reconstruction Lord Woolton's statement in this regard was severely criticized as "neo-imperialist" on the grounds that it sought to utilize the sterling balances to secure "adequate British exports to India and the empire" through "statutory provisions".[86] To guard against the loss to India involved in the purchase of capital goods after the war when the prices of such goods would be very high, a suggestion was made that India should enter into agreements during the course of the war

[82] FICCI Resolution and Speeches by G.L. Mehta and Rahimtoola M. Chinoy, FICCI, *AR*, 1942, pp. 103–4, 112–13 and 115–16 respectively; FICCI President to Government of India, Finance Dept., 13 July 1942, FICCI, *Corresp.*, 1942, pp. 133–34.

[83] FICCI to Government of India, Finance Dept., 14 January 1943, FICCI, *AR*, 1942, p. 363.

[84] G.L. Mehta, FICCI, *AR*, 1942, pp. 112–13.

[85] Press Communique issued by the Committee of the FICCI, 3 March 1943, FICCI, *Corresp.*, 1943, pp. 122–23; Presidential Speech, J.C. Setalvad, FICCI, *AR*, 1945, pp. 15–16; and ICC (Cal.) to Government of India, Commerce Dept. and Finance Dept., 7 June 1944, *WH Papers*, fl. 70.

[86] A more important criticism of the statement was that it provided for "export of investment capital to the Empire" thus allowing for powerful foreign interests acquiring a "stranglehold" over basic and key industries. G.L. Mehta, FICCI, *AR*, 1944, pp. 115–18; and *EE*, 3 March 1944.

itself for the purchase of capital goods from "sterling [and] dollar block countries at a stated price agreed now", though the goods could be released after the war.[87]

What was not to be done under any circumstances was to use up the sterling balances in importing consumer goods and other non-essentials, as the government was accused of permitting in the post-war years.[88] The capitalists also vehemently criticized the government decision to set aside a part of the sterling balances "for capitalising the annual charges in respect of sterling pensions, family pensions and provident fund". They saw "absolutely no reason" why the government should thus make "advance provisions of sterling to meet future payments" especially as these sterling obligations were already safeguarded in the 1935 Government of India Act.[89] They urged that the sterling balances, which represented "practically our entire foreign exchange resources" and which were "badly needed" to buy capital goods "to build up industrial equipment" and launch a plan of industrialization, were not to be "frittered away" in non-essentials.[90]

Such was the importance attached to the acquiring of capital goods in the post-war years, that the viewpoint began to gain ground during 1946–47 that it was more important to use the sterling balances for this purpose than even for what was considered the top priority just a few years ago, i.e., the repatriation of British commercial investments in India.[91] It was argued, in 1947, that, while in principle it was a positive move to repatriate British commercial investments in India, only about 2,500 million of the balances should be used for this purpose, leaving about 10,000 million for "long-term reconstruction" and "economic development". Repatriation of British investments, it was said, did not add to the productive capacity, being only a financial transfer of assets, and besides the greatly inflated price at which these assets were sold involved a considerable loss to the country.[92] We have discussed in some detail in Chapter 10 (in this volume)

[87] S.C. Majumdar, 3 December 1942, *WH Papers*, fl. 82, pt. II.

[88] A.D. Shroff, Ramgopal Gadodia (Delhi Hindusthani Merchant Association), Lalji Mehrotra in FICCI, *AR*, 1947, pp. 35, 97, 39 respectively; ICC (Cal.) to Government of India, Finance Dept. and Commerce Dept., 7 June 1944, *WH Papers*, fl. 70.

[89] Sir M. Chettiar, President, FICCI, Press Communique, 23 July 1943, FICCI, *Corresp.*, 1943, pp. 150–51; D.P. Khaitan, ICC (Cal.), 29 June 1943, *WH Papers*, fl. 70; FICCI Press Communique, 3 March 1943, FICCI, *Corresp.*, 1943, p. 122.

[90] A.D. Shroff and Ramgopal Gadodia in FICCI, *AR*, 1947, pp. 35 and 97 respectively; G.L. Mehta, *Ananda Bazaar Patrika*, 6 February 1947, *WH Papers*, fl. 110, pt. I. Lala Gurusharan Lal, the FICCI President, argued in a Memor. to the Finance Member: "It will be a tragedy...if the sterling balances which represent the forced savings of the country over the six years of war...are frittered away in importing unproductive and nondurable goods". 31 January 1947, FICCI, *Corresp.*, 1947, p. 190.

[91] *EE*, 17 January 1947, 27 September 1946.

[92] *Ibid.*; and Lalji Mehrotra, FICCI, *AR*, 1947, p. 39. The example was cited of the Baglas and the Jaipurias taking over the Swadeshi Cotton Mills by paying the British owners Rs 2,500 for every Rs 100 share. *EE*, 17 May and 12 July 1946.

some of the reasons for this change in the attitude of the capitalists regarding repatriation of foreign capital and their emphasis on the acquiring of capital goods.

Ie. Post-War Bargaining

Given the economic scenario faced by India in the immediate post-war years, with overall industrial stagnation if not decline, immediate need to replace plants and machinery overworked during the war, the necessity of acquiring new plant and equipment, acute food shortage, shortages in other essential consumer requirements, etc., the capitalists argued that, if the sterling balances were not made available or denied to India, then not only would she be unable to launch on a path of economic development but would in fact "witness an economic catastrophe for which there will be no parallel in contemporary history".[93]

The post-war years therefore saw some hectic and hard-headed bargaining for securing to India her sterling balances in a manner and over a period most suitable to her requirements. Capitalist representatives such as, by now the "old war horse", Purshotamdas Thakurdas, John Mathai, A.D. Shroff, Lalji Mehrotra and Manu Subedar played a prominent part during the negotiations between the Indian and British delegations for the settlement of the balances.[94] The negotiations were expected to be tough, as the British officials in the Government of India as well as the British government at home, despite the coming of Labour to power, were seen to be either "partial" on this question or hamstrung by the political and economic situation in England.[95]

[93] FICCI President, M.A. Master's speech at Rotary Club, Karachi, 9 July 1947, *PT Papers*, fl. 336; B.M. Birla to Purshotamdas, 2 June 1947, *PT Papers*, fl. 381.

[94] *Indian Finance*, 7 June 1947, *PT Papers*, press clippings, fl. 19; Purshotamdas to M.A. Master, 28 May 1947, *PT Papers*, fl. 336. C.M. Kothari, a businessman from Madras, on hearing the news that Purshotamdas would lead the Indian delegation to London wrote to him saying, "...your lead will be the best in the interest of India. It requires a first class, realistic businessman to firstly find out how much the debtor can pay and then bargain for the best...." 15 May 1947, *PT Papers*, fl. 296, pt. II.

[95] Purshotamdas wrote to G.D. Birla on 14 December 1946, asking him to ensure with the help of Sardar Patel and others that the British delegation was met by Indians only and not British officials of Government of India as the "best of the Britishers have been found to be so partial with regard to sterling balances". *PT Papers*, fl. 244, pt. II. Regarding the Labour government at home, the RBI Governor C.D. Deshmukh's views are revealing. He doubted that "the Labour Government will attempt anything radically different from their predecessors in the economic sphere". "In the financial sphere", he said, "I doubt if labour will stand up to the *odium of continued regimentation*—which will be the *pre-requisite of increased exports and capacity to repay sterling balances*. We may, however, expect to hear less of any suggestion to scale down the accumulations". Deshmukh to Purshotamdas, 30 July 1945, *PT Papers*, fl. 349, emphasis mine. (Deshmukh was in close touch with capitalist leaders like Purshotamdas, and generally seemed to take positions which were more conservative than the dominant

To begin with, the capitalists objected strongly to the sterling balances continuing to grow even after the cessation of the war. They demanded that India be paid for all (current) purchases made in India by the British government either in foreign currency or in capital goods and that all her foreign exchange earnings be made available to her to meet her immediate requirements.[96]

As for the actual settlement of the sterling balances, taking into account the post-war economic crisis in Britain and her inability to either give full convertibility to the balances through her foreign exchange earnings or meet the sterling credits through direct exports of her goods to India, and also considering India's limited capacity to "fruitfully and productively absorb the balances...", the capitalists agreed that some sort of funding scheme involving gradual repayment was necessary.[97] The FICCI President, Lala Gurusharan Lal, in a statement in 1947 said that India would be "sympathetic" to funding a portion of the balances if she was satisfied that Britain was making every endeavour to meet India's capital goods requirements (using, if necessary, the plant and machinery received by Britain as war reparations from Germany), and provided that the funding was for a short period not exceeding *15 years* with the rate of interest being not lower than *2 per cent per annum*. Also, Britain was to give convertibility of the balances into hard currency to the extent India was unable to meet her capital requirements from the sterling area.[98]

In early 1947, the *Eastern Economist* argued, in a similar strain, that, though at the inflated post-war prices India needed about Rs 6,000 million for her capital requirements in the first plan (the Bombay Plan envisaged Rs 7,400 million), she would be satisfied if Britain agreed to release about Rs 2,500 million from the sterling balances between 1947–50 and the rest, about Rs 7,500 million, over the next 10 years, i.e., between 1951–60. The journal also correctly anticipated that Britain would try to limit the rate of interest to about 0.5 per cent and strongly argued that, considering the sacrifices of "India's poor millions" which had enabled this credit, a 6 per cent rate of interest would be just; however, given the political and economic

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view among the capitalists.) The capitalists' suspicion of Labour intentions was seen again when they pointed out how the Chancellor of the Exchequer, Dr Dalton, a "spokesman of the Labour Government" and a socialist, was talking of scaling down the sterling balances. See Lala Gurusharan Lal, FICCI, *AR*, 1947, p. 13; *The Hindustan Times* and *The Hindu*, 1 and 10 May, 1947 respectively.

[96] Resolution proposed, to be passed by the RBI Board. See B.M. Birla to Purshotamdas, 7 January 1946, Purshotamdas to B.M. Birla, 14 January 1946, *PT Papers*, fl. 244, pt. II. C.D. Deshmukh in a note to Purshotamdas, 28 January 1946, suggested a diluted version of the above proposed resolution which might be acceptable to the government. *PT Papers*, fl. 244, pt. II.

[97] See, for example, N.R. Sarkar, *Free Press Journal*, 4 June 1947; *EE*, 19 November 1943, p. 945.

[98] FICCI, *Corresp.*, 1947, pp. 145–46.

situation, the rock bottom India should agree to was 2 per cent.[99] Including interest at 2 per cent, Britain would have to pay at the rate of Rs 625 million per annum between 1947 and 1950 and Rs 875 million between 1951 and 1960. As for "multilateral convertibility", the journal demanded full convertibility on the first 2,500 million; the rest was to be negotiated. However, given the fact that the British price quotations for capital goods were prohibitively high, delivery dates uncertain and quality compared to other countries not always comparable, it argued that no bilateral commitment to spend "a specified proportion of the balances in Britain" was to be made, "even if we have the willingness to accommodate Britain to the maximum extent in practice".[100]

Further, the capitalists warned the British delegation, which was to negotiate the settlement of the balances, that "the future of the relations between India and the UK will depend upon the manner in which this question would be settled".[101] It was made clear that Britain would be wrong in thinking that they can "compel India to agree substantially to the scaling down of the balances as *a price of India's freedom*", or by promoting "political intrigue...". "They will meet utter failure in this nefarious game as there is complete agreement among all parties in India that India is entitled to claim fully and justly all the debts that are due to her".[102]

The prolonged actual negotiations which continued for a few years after independence, (an aspect which falls outside the scope of this work), occurred more or less on lines discussed above.[103] While some, especially Manu Subedar and partially A.D. Shroff, felt that India had got a raw deal in the settlement (the British press generally arguing the opposite), it appears that other Indian capitalists felt that India managed to secure all that she could fruitfully utilize and the best she could extract in the existing circumstances.[104]

[99] *EE*, 17 January 1947. Eventually the Indian delegation proposed to argue for at least 1.6 per cent—"The effective rate UK will pay on American and Canadian Loans". The British view was that war debts should carry no interest at all or only 0.5 per cent. See brief for the Indian Delegation, Ministry of Finance, Govt. of India, undated, *PT Papers*, fl. 269.

[100] *EE*, 17 January 1947.

[101] FICCI President, Lala Gurusharan Lal, FICCI, *Corresp.*, 1947, p. 145.

[102] Press Communique by FICCI President, M.A. Master, 9 August 1947, FICCI, *Corresp.*, 1947, p. 151.

[103] See, for example, Brief for the Indian Delegation, Ministry of Finance, Govt. of India, undated, *PT Papers*, fl. 269; Memorandum of Financial Agreement between the Government of India and the Government of the United Kingdom, C.D. Deshmukh, Governor, RBI, 27 August 1947 and Interim Agreement upto 31 December 1947, *PT Papers*, fl. 386 and 381. For a discussion of the post-independence negotiations, see B.R. Tomlinson, "Indo-British Negotiations in the Post-Colonial Era: The Sterling Balances Negotiations, 1947-49", *Journal of Imperial and Commonwealth History*, Vol. 13, 1985, pp. 142–62.

[104] See *The Financial Times*, 16 July 1948; *Commerce*, 24 July 1948; *Capital*, 13 May and 19 May 1948; *Journal of the Indian Merchants' Chamber*, August 1948; *PT Papers*, press clippings, fl. 19.

II. The Empire Dollar Pool

Besides the forced loan that Britain raised in India during the War in the form of the sterling balances, she also appropriated the dollar resources of the empire for her own purposes. I will briefly outline below the Indian capitalists' critique of this blatant use of imperial authority to the detriment of Indian interests.

First, the capitalists highlighted the large size of the dollar resources appropriated from India and the manner in which it was done. It was pointed out that, using the fact of the rupee being linked to sterling, India's dollar earnings, resulting from her favourable balance of trade with the United States, were not made available to India but were put in the common Empire Dollar Pool in the name of helping the war effort. Britain, which had an unfavourable balance with the USA, became the "self appointed manager of the Pool" and drew from it as she chose.[105] The capitalists quoted an estimate of the US Commerce Department which showed that about "25 per cent of the total sterling balances held by other countries in Britain represented transfer of dollars earned by these countries to the Empire Dollar Pool against which sterling balances were credited to these countries".[106] India's contribution to the Pool between September 1939 and March 1946 (according to government calculations) was reported to be more than Rs 4,500 million worth of dollars.[107]

Apart from appropriating India's dollar earnings, which were a result of her trade surplus, the Government of India, it was said, through the Dollar Requisition Order of 1940 "commandeered" all the dollar securities held

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The question of the balances was finally "settled by the Government of free India by an agreement with the British Government in July 1948 (and) the ghost of 'scaling down' had been laid. Federation (FICCI) President Lalji Mehrotra was a member of the official delegation which went to England to negotiate the agreement and the Federation was thus a party to it." Venkatasubbiah, *Enterprise and Economic Change*, pp. 68–69. Venkatasubbiah also notes that after such a long struggle to get the sterling balances released for the purchase of capital goods, India was not able to fully absorb the sterling actually released as a result of the agreements. The capitalists also seemed to accept that they had tended to overestimate India's absorbing capacity at that time. *Ibid*.

[105] FICCI to Government of India, Finance Dept., 14 January 1943, FICCI, *Corresp.*, 1943, pp. 359–60; Presidential Speeches of G.L. Mehta, FICCI, *AR*, 1943, pp. 19–20; Kumarajah Chettiar, *AR*, 1944; and J.C. Setalvad, *AR*, 1945, p. 17; FICCI *Resolution*, *AR*, 1944, pp. 23–24.

[106] Press Statements, Committee of FICCI, 2 March 1945 and President Badridas Goenka, 3 August 1945, FICCI, *Corresp.*, 1945, pp. 91 and 67 respectively.

[107] Lala Gurusharan Lal to Pt. Nehru, Vice-President to Indian Cabinet, 25 September 1946, FICCI, *Corresp.*, 1946, pp. 62–65. The FICCI in a Press Statement, 4 March 1946, conceded that before the war when the sterling was convertible to any currency it may have been convenient and economical to settle the empire country's international accounts through sterling in London. But the continuation of the practice of clearance through London *after* sterling became inconvertible had acted against India's interests and had benefited Britain, FICCI, *Corresp.*, 1946, p. 99.

by Indians. This was done for the use of His Majesty's Government, "without giving any thought to the enormous loss which the holders of these securities would be put to by their disposal at the present juncture".[108]

Further, the FICCI accused Britain in April 1945 of entering into monetary agreements with France, Belgium and Canada which (the agreements) would cover the "entire sterling area", including India, and would result in India not being able to obtain direct payment of her favourable balance of trade with these countries in gold or internationally convertible hard currency, but would be credited in sterling, while Britain would be able to both use India's favourable balance to pay for her own adverse balance with these countries, and also keep for herself any payment in gold or convertible foreign exchange that may be made by these countries.[109] A somewhat similar accusation was made by FICCI a little later, this time involving the USA. It complained to the RBI that many American purchasers were paying Indian exporters in sterling and not in dollars. Under this procedure, FICCI felt, the "American purchasers are trying to work off their sterling balances accumulated in London, or it may be that the UK is trying to acquire dollars for herself direct and passing on more and more sterling to India instead of securing dollars through the Dollar Pool Scheme".[110]

Second, the capitalists pointed out how the commandeering of India's dollar resources suited imperial interests in various ways. At a time when Britain had balance of payment deficits with the USA and other countries, it helped in "bolstering up the value of sterling"—though while the sterling–dollar exchange got strengthened the rupee was left "to struggle for itself".[111] It was said that, "if India's dollar resources had not been available to His Majesty's Government, United Kingdom would have been compelled to that extent" to disinvest further in the USA by disposing of "British investments in the USA sometimes even at a reduced price... to pay for British purchases of American goods, particularly those which she could not...obtain through lease-lend".[112] Further, Britain was accused of using

[108] A.L. Ojha, Presidential Speech, FICCI, *AR*, 1941, p. 17; FICCI, *Proc. of EC*, 1940, pp. 24–25; FICCI to Dy. Governor, RBI, 26 January 1946, FICCI, *Corresp.*, 1946, p. 84.

[109] See FICCI to Government of India, Finance Dept., 6 April, 18 July and 27 August 1945, and FICCI to Central Board of Directors, RBI, 29 August 1945, FICCI, *Corresp.*, 1945, pp. 53–55, 56, 57–59 and 60 respectively. See also *PT Papers*, fl. 244, pt. II.

[110] FICCI, to RBI, 18 December 1945, FICCI, *Corresp.*, 1945, pp. 79–80. The Reserve Bank admitted that such transactions were taking place and a little later assured FICCI that the system adopted "now" would give full credit to India in dollars for her exports to the US irrespective of the method of finance. RBI to FICCI, 27 December 1945 and 4 January 1946, FICCI, *Corresp.*, 1945, pp. 79–80.

[111] M. Chettiar, FICCI, *AR*, 1944, pp. 18ff.; FICCI Press Communique, 3 March 1944, FICCI, *Corresp.*, 1944, p. 43.

[112] FICCI, Press Communiques, 16 January 1944 and 7 July 1944, FICCI, *Corresp.*, 1944, pp. 39–40 and 64 respectively.

the dollar credits from the Empire Pool to redeem about $112 million worth of securities (particularly the high dividend yielding shares), which were pledged to the Reconstruction Finance Corporation of the USA, against the grant of a loan of $425 million.[113] Lastly, Britain, by making available to India only sterling against her dollar credits, was ensuring her own exports as against American exports, even when the latter were more needed by India—an aspect that was noticed and condemned by American commercial circles, particularly exporters.[114]

Third, it was argued that, while Britain gained in the above manner, India was a major loser. To begin with, an opportunity for India to build up her gold reserves and, more important, to acquire crucial capital goods, plant and machinery from the USA using her favourable balance of trade with that country, was denied to her by making her "surrender her dollar credits to His Majesty's Government".[115] Also, the conversion of India's earnings to sterling credits limited her purchases to the sterling areas, preventing her from acquiring from the US market capital goods which were either unavailable or too expensive in England. Further, by preventing access to the US market during the war, India was denied an opportunity to develop "valuable trade contact" with the USA and avail of the "technical progress" made by that country.[116] Moreover, as pointed out by Badridas Goenka, the FICCI President, India was thus denied the opportunity of using the dollar credits as a "'hedge' against being dictated to by the UK either in regard to quality and quantity of goods or the prices and the terms of delivery".[117]

The capitalists' demand therefore was that the Dollar Pool be dissolved (there being particularly no ground for its continuation after the cessation of the war),[118] and the accounts of the Pool, showing each country's contribution, be made public and the dollars be allocated "on a pro-rata basis".[119] Further, the Federation in a resolution in 1944 demanded that, at least at this late stage of the war, "all dollars accruing to India whether on trade

[113] FICCI to Dy. Governor, RBI, 26 January 1946, FICCI, *Corresp.*, 1946, pp. 84–85. A suspicion that Britain might use the Dollar Pool to redeem her dollar securities was expressed much earlier. See Press Note by J.C. Setalvad, FICCI, President, 7 July 1944, FICCI, *Corresp.*, 1944, p. 64.

[114] Muthiah Chettiar, Press Communique, 16 January 1944, FICCI, *Corresp.*, 1944, pp. 39–40. See for a similar attack on British policy of depriving India of dollars to buy American goods by American Congressman Emmanuel Cellar, *The Hindustan Times*, 30 August 1945, *WH Papers*, fl. 90, pt. II.

[115] FICCI President, G.L. Mehta, FICCI, *AR*, 1943, pp. 19–20.

[116] Muthiah Chettiar, Press Communique, 16 January 1944, FICCI, *Corresp.*, 1944, pp. 39–40.

[117] Press communique, 3 August 1945, FICCI, *Corresp.*, 1945, p. 68.

[118] Badridas Goenka, FICCI, *AR*, 1946, p. 10.

[119] M.A. Master, President IMC, speech at second quarterly meeting, 16 August 1945, *WH Papers*, fl. 92, pt. I; FICCI to Government of India, Finance Dept., 18 September 1944, FICCI, *Corresp.*, 1944, pp. 71–72.

balance or otherwise should be credited to India's account and... the Reserve Bank of India Act [should] be amended to make it possible for the Bank to hold dollar balances".[120] India's dollar earnings should thus be made available to her to enable her to purchase essential capital goods to meet her immediate requirements, cover the "back log of repairs and renewals" accumulated during the war and also to help her embark on a long-term plan of economic development after the war through an expansion of her industrial base.[121]

The abolition of the Dollar Pool was said to be imperative for two additional reasons. First, because at the discussions at Bretton Woods for a future international monetary order, even the modest demand of securing "convertibility of at least a portion of India's sterling balances into international currency in the transition period was turned down".[122] Second, because Britain's financial position was considerably improved following the lease lend facilities made available to her by the US and the ratification of the Anglo-American Loan Agreement. Further, the Dollar Pool (which only led to an increase in India's sterling balances) helped Britain to increase its dollar and gold reserves, which rose rapidly from the dangerously low figure of only £3 million in 1940–41 to that of more than £500 million in December 1945.[123] Britain was thus said to have no justification for continuing to transfer India's dollar credits to the Dollar Pool.

The government decision in 1945, under the pressure of Indian opinion, to allocate $20 million per year to India out of the Pool was described by the capitalists as "utterly meagre", suggesting "petty mindedness" on the part of the "Manager of the Empire Pool".[124] The Finance Member's argument that even $20 million could not be fully utilized by India was met by the complaint that this fact merely confirmed "the experience of the industrial community that on one excuse or the other Indian industries [were]

[120] FICCI, *AR*, 1944, pp. 23–24. See also FICCI Press Communique, 3 March 1944, FICCI, *Corresp.*, 1944, p. 43.

[121] See, for example, *ibid.*; R.D. Jalan, President, ICC (Cal.) at second quarterly meeting, 14 November 1946, *WH Papers*, fl. 70; FICCI to Government of India, Finance Dept., 18 September 1944, FICCI, *Corresp.*, 1944, p. 72; B. Goenka, Press Communique, 3 August 1945, FICCI, *Corresp.*, p. 67.

[122] FICCI, Press Communique, 16 June 1944 and FICCI to Government of India Finance Dept., 18 September 1944, FICCI, *Corresp.*, 1944, pp. 39–40 and pp. 71–72 respectively. Also see the next section.

[123] FICCI President, Lala Gurusharan Lal to Pt. Nehru, Vice-President to Indian Cabinet, 25 September 1946 and to Liaqat Ali Khan, Finance Minister, Interim Government, 31 January 1947, FICCI, *Corresp.*, 1946, pp. 62–65 and 1947, p. 140 respectively; Statement by Gurusharan Lal, FICCI, *Corresp.*, 1947, pp. 145–47, FICCI to Government of India, Finance Dept., and to Dy. Governor RBI, 26 January 1946, FICCI, *Corresp.*, 1946, pp. 68 and 84–86 respectively; B. Goenka, FICCI, *AR*, 1946, p. 10; M. Chettiar, FICCI, *AR*, 1944, p. 68.

[124] A.D. Shroff FICCI, *AR*, 1945, p. 27; B. Goenka, Press Communique, 3 August 1945, FICCI, *Corresp.*, 1945, p. 67.

not permitted [through, for example, denial of import licences] to purchase their requirement from America or from other hard currency countries, even though exchange for such purposes [was] available"—it did not show that there was any lack of demand for capital imports.[125] The other argument that India, by not claiming a larger portion of her dollar credits, was making a contribution towards strengthening the sterling bloc, which was indirectly in her own interest, given her large sterling balances, was ridiculed. It was said that first the British force the sterling balances on India and then ask her to part with her hard currency earnings on the plea that it would strengthen the sterling bloc and consequently protect the value of the sterling balances.[126]

Lastly, the capitalists reiterated their stand, as they did on the issue of the sterling balances, that an amicable settlement of the issue of the Dollar Pool and the sterling balances was essential if India was to participate in the IMF and the International Bank. And further, a failure to settle these issues would strengthen those who argued that India should not remain in the British Commonwealth (after independence).[127]

III. Post-War Monetary Agreements: The IMF and the IBRD

With the end of the Second World War in the offing, moves were afoot to create new international political and economic organizations with the ostensible purpose of guiding the world along the saner lines of mutual friendship and cooperation on the basis of equal rights, so that the kind of escalation of hostility and conflict that had culminated in the disastrous war could be prevented. The Indian capitalists, however, had "grave doubts" about these organizations achieving their objectives, given the immense inequality that existed within them between the big powers and the smaller nations, particularly the underdeveloped countries. It was said that the fact that the "Big Five or really speaking the Big Three" countries were to "dominate" the United Nations Organization and "in effect completely control all its activities", and that they (these countries) refused to accept the ending of colonialism and the securing of "self-Government... for dependent and colonial territories" within a stipulated time as the

[125] FICCI press statement, 4 March 1946 and FICCI to Government of India, Finance Dept., May 1946, FICCI, *Corresp.*, 1946, pp. 100ff. and 115ff. respectively. FICCI accused the government of pursuing a deliberate policy of canalizing orders of capital goods to the UK alone, refusing import licences for Sweden even though *payment in rupees* was acceptable to them. *Ibid*.

[126] A.D. Shroff, FICCI, *AR*, 1945, p. 28.

[127] A.D. Shroff, FICCI, *AR*, 1945, pp. 27, 30; Press Statement by FICCI, 2 March 1945, FICCI, *Corresp.*, 1946, pp. 91–92.

object of the Organization, suggested that "might will remain the right" as in the past and the "imperialist powers will continue to function in the old imperialist way".[128] In the economic sphere the fear was that, using the "key nations approach", an attempt would be made to let the "dollar and sterling decide among themselves what to do" and then asking the rest of the world to follow, in the same fashion as what the "Big Three (were) doing in the political sphere, with the two poor relations France and China carried on their back".[129]

Being at the threshold of independence from one kind of domination, that of direct British colonialism, the capitalists were in no mood to get into a situation of another kind of domination, where they would be subjected to the "multi-lateral" exploitation of the advanced countries led by the USA. It is not surprising therefore that the capitalists' response to the various proposals or schemes (mainly American and British) for post-war monetary arrangements and the statement of guiding principles for proposed institutions like the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) was guarded if not sceptical.

During 1943–45, the capitalist warned that, given the "unfortunate" political position in India, where there was no national government and "the Government of India (was) subordinated to the British Government", no "commitments" regarding such proposals were to be made on behalf of India without consulting representative Indian political and commercial opinion. Aware that the international monetary schemes would have wide ranging implications such as on "commercial policy (tariff etc.)... production, distribution, ...determination of prices of primary products, ...control of capital movements and investments", the capitalists asserted that no "monetary plan which tends to restrict India's...economic sovereignty", and her fiscal and monetary autonomy, "can be acceptable to Indian commercial opinion". Moreover, the capitalists insisted that, if these schemes were to be useful, the special position of "economically backward and industrially undeveloped countr[ies] like India" would have to be first taken into account and their interests safeguarded.[130]

[128] M.A. Master, Presidential Speech at second quarterly meeting of IMC, 16 August 1945, *WH Papers*, fl. 92, pt.1.

[129] G.L. Mehta's speech on Bretton Woods Agreement at meeting of General Policy Committee, 9 October 1945, *PT Papers*, fl. 260, *WH Papers*, fl. 81, pt. II. Clearly by "Big Five" the capitalists meant USA, USSR, UK, France, and China with the first three constituting the "Big three".

[130] See for views on the "United Kingdom proposals for an International Clearing Union" and the "United States Proposals for United Nations Stabilisation Fund", FICCI to Government of India, Finance Dept., 30 September 1943, FICCI, *Corresp.*, 1943, pp. 129–36; Note by Calcutta Sub-Committee appointed by the FICCI, undated, *PT Papers*, fl. 297. For views on the "Statement of Principles for an International Monetary Fund", see FICCI to Government of India, Finance Dept., 12 June 1944, FICCI, *Corresp.*, 1944, pp. 49–56; C.D. Deshmukh,

In fact it was from the perspective of the special interests of the underdeveloped countries that the capitalist brilliantly raised some of their main objections to the proposals for the establishment of the IMF. The proposals had laid down as their "*Primary object*" the "expansion and balanced *growth of international trade*" and consequently "the *maintenance of a high level of employment* and of real income".[131] To achieve this objective, the IMF and other international economic organizations such as the international trade organizations would try to eliminate existing foreign exchange restrictions, tariff barriers, etc.[132] The capitalists, however, contended that the "objectives" laid down in the proposals were geared to the maintaining of the already achieved high levels of employment in the advanced countries such as the US and the UK, by promoting their exports and making crucial raw materials and primary products available to them at cheap prices from other countries.[133] Whereas, the issue for the underdeveloped countries, it was pointed out, was not how to *maintain* a high level of employment but how to achieve it in the first place.[134] Further, it was argued that while the promotion of international trade particularly exports was emphasized because it was necessary for some of the advanced countries like UK to ensure their post-war prosperity, for undeveloped countries like India expansion of international trade and exports was not "an end in itself".[135] As FICCI put it:[136]

> For a country like India whose internal trade is very much larger than its external trade and whose main objective, after the war, would be to

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Governor, RBI to Govt. of India, Finance Dept., 18 May 1944, *PT Papers*, fl. 324, pt. I; FICCI Resolution in FICCI, *AR*, 1945, pp. 23–24. Note that the above Reserve Bank communication signed by Deshmukh, which we shall cite extensively below, had the full support of G.D. Birla, B.M. Birla and Purshotamdas. The latter two were directors of the RBI board and had a lot to do with the preparation of this communication. See Purshotamdas to G.D. Birla, 17 May 1944 and G.D. Birla to Purshotamdas, 22 May 1944, *PT Papers*, fl. 324, pt. 1. Also, the views expressed in Deshmukh's note were said to have taken into account "all the points" raised by the capitalists themselves. *Ibid*. I shall therefore treat it as expressing capitalist opinion.

[131] See Joint Statement by Experts of the United and Associated Nations on the Establishment of an International Monetary Fund (hereafter Jt. Statement for establishment of IMF), Part I, Clause 2, *PT Papers*, fl. 324, pt. 1, emphasis mine.

[132] *Ibid*. and FICCI to Government of India, Commerce Dept., 5 March 1946, FICCI, *Corresp.*, 1946, pp. 12–19. The issue of removal of tariff barriers has been taken up in detail in Chapter 9, section VII in this volume.

[133] Note by Calcutta Sub-Committee of FICCI, *PT Papers*, fl. 297, G.D. Birla to Purshotamdas, 9 May 1944; G.D. Birla, Note on Anglo-US Joint Statement on IMF, 13 May 1944, *PT Papers*, fl. 324, pt. 1; A.D. Shroff, FICCI, *AR*, 1946, p. 100.

[134] *Ibid*.

[135] Note by Calcutta Sub-Committee of FICCI, *PT Papers*, fl. 297; FICCI to Government of India, Finance Dept., 12 June 1944, FICCI, *Corresp.*, 1944, pp. 49–56.

[136] FICCI to Government of India, Finance Dept., 12 June 1944, *PT Papers*, fl. 324, pt. 1. See also, G.L. Mehta's remarks in the General Policy Committee, Post-War Reconstruction, 17 January 1944, *PT Papers*, fl. 297.

increase employment through internal economic development, international trade should not be the main criterion of judging the utility of the scheme.

The immediate goal for India then was to develop her internal trade, agriculture and industry, leading to economic development "on lines which, *while making her self-sufficient as far as possible*, would raise the standard of living of its people".[137] To achieve this goal India would need to levy protective tariffs and put other restrictions such as limiting exports of crucial raw material. Such steps however would be in conflict with the demands of the industrially advanced countries and with the IMF proposals which attempted to do away with such restrictions, more or less on the same lines as those stipulated by the Lease Lend Agreement and the Atlantic Charter in 1941–42 and later again by the Anglo-American Loan Agreement in 1945.[138] It was necessary, therefore, argued the capitalists, to ensure that the participation in any such international scheme "in no way compromised... India's fiscal autonomy and planning for national economic development".[139]

"An economically backward country", it was argued, could not be "treated in the same manner as a highly industrialised country", as "full employment in one" could be "incompatible with full employment in another". Therefore, it was said that, if any international economic scheme of cooperation was to succeed, then "special recognition and treatment" would have to be given to the "retarded development of important units like India and China".[140] In fact, it was asserted that the very survival of international organizations like the IMF as well as the "test of sincerity of the developed and powerful nations of the world" depended on the developed countries' willingness to make "temporary sacrifices" of their higher standard of living to "assist in the raising of the standard of living of the

[137] Note by Calcutta Sub-Committee of FICCI, *PT Papers*, fl. 297, emphasis mine; Note by G.D. Birla on Anglo-US Joint Statement on IMF, 13 May, 1944, *PT Papers*, fl. 324, pt. 1. As an aside, it is important to note that the Indian capitalists had clearly rejected as a path for India's post-independence economic development the model which in current parlance is called the export-oriented (or led) industrialization strategy—a model adopted by several other third world countries. See Mukherjee and Mukherjee, "Imperialism and Growth of Indian Capitalism in Twentieth Century".

[138] FICCI to Government of India, Finance Dept., 30 September 1943, FICCI, *Corresp.*, 1943, pp. 129–36; FICCI to Government of India, Commerce Dept., 5 March 1946, FICCI, *Corresp.*, 1946, pp. 12–19; and A.D. Shroff in FICCI, *AR*, 1946, pp. 99–100. The capitalists made detailed critiques of the provisions of the Lease Lend Mutual Aid Agreement, Atlantic Charter and Anglo-American Loan Agreement, see, for example, A.D. Shroff, *ibid.*; and G.L. Mehta, *Commerce*, May 1945, *WH Papers*, fl. 90, pt. II.

[139] FICCI to Government of India, Finance Dept., 12 June 1944, *PT Papers*, fl. 324, pt. I.

[140] C.D. Deshmukh, Governor, RBI, to Government of India, Finance Dept., 18 May 1944, *PT Papers*, fl. 324, pt. I; and FICCI to Government of India, Finance Dept., 30 September 1943, FICCI, *Corresp.*, 1943, pp. 129–36.

poorer and less developed nations".[141] Of course, India would have to guard against the danger of the advanced countries seeking to invest directly in Indian industries, thus acquiring control over them, "under the garb" of trying to "develop" and "increase the standard of living" of the underdeveloped countries.[142]

A possible instance of how certain provisions of the IMF proposals could obstruct India's plan of industrialization was cited. It was pointed out in 1943 (the outlook had somewhat changed by the end of the war) that in the initial post-war years India was likely to have a considerable favourable balance of trade occupying a position which the "Monetary Plans" describe as a "surplus" country. The IMF proposals would, in such a situation, require that India "readjust her surplus position in the name of bringing an equilibrium in the balance of trade", through the adoption of measures such as appreciation of the currency, reduction of tariffs and removal of other such discouragements to imports, increase in costs and incomes in the country and a levy on surplus balances. Apart from the fact that India's invisible payments would have to be taken into account before even declaring India "surplus", it was argued that the measures for "readjustment" suggested would make Indian industry less competitive, open her markets to foreign industries and restrict Indian industrial development. These were measures which "under no circumstances" would be acceptable to India "unconditionally".[143]

The second major objection to the post-war monetary plans that the Indian capitalists had related to the question of the liquidation of war debts, i.e., for India, the liquidation of the sterling balances. As I discussed earlier (see section Ib) the Indian capitalists demanded that the IMF intervene on this issue and ensure at least partial (multi-lateral) settlement of the balances getting India convertibility for the balances to that extent (i.e., the debtor country was not to decide how to pay).[144] They put up a strong

[141] C.D. Deshmukh Confidential Memorandum to the RBI Central Board, 30 September 1943, *PT Papers*, fl. 297, Purshotamdas was in broad agreement with this note, Purshotamdas to Deshmukh, 6 October 1943, *ibid*. See also G.L. Mehta, *Commerce*, May 1945, *WH Papers*, fl. 90, pt. II.

[142] See B.M. Birla to Purshotamdas and B.M. Birla to RBI, 23 November 1943, and C.D. Deshmukh to Purshotamdas, 26 November 1943, *PT Papers*, fl. 297.

[143] FICCI to Government of India, Finance Dept., 30 September 1943, FICCI, *Corresp.*, 1943, pp. 135–36 and FICCI note on India's Requirement in the Post-war Currency Plans, 28 August 1943, *PT Papers*, fl. 297.

[144] *Ibid.*; FICCI to Government of India, Finance Dept., 30 September 1943, FICCI, *Corresp.*, 1943, pp. 133–35. (The initial demand was for liquidity and international convertibility for "the whole of India's sterling credits", *ibid.*, p. 135.) See also RBI, Governor to Government of India, Finance Dept., 18 May 1944, *PT Papers*, fl. 324, pt. 1. The *Eastern Economist* suggested that Britain borrow from the proposed International Bank to set off the sterling balances. It would mean one foreign loan for another but India would get multi-lateral convertibility for her balances. *EE*, 28 July 1944.

fight at the Bretton Woods Conference (which met in 1944 to discuss post-war monetary proposals) against the stand of the advanced countries like the USA and the UK that the war balances should be settled bilaterally between the debtor and the creditor countries without the intervention of the IMF. The Indian demand was however shot down at the conference which, it was alleged, was dominated by the advanced countries—the "big guns".[145]

The capitalists therefore began to argue that India should not be in a hurry to join the IMF or the IBRD until the issue of the sterling balances and the Dollar Pool was first settled with Britain.[146] As G.D. Birla put it, "the question of settlement with H.M.G. regarding accumulated sterling is a question of life and death to India. The whole future planning depends on this settlement... unless India's position was safeguarded in respect of its sterling position, mere joining the Fund and Bank could hardly be of any use...."[147] Eventually when the IMF proposals were ratified by the Government of India, at the end of 1945, FICCI was extremely critical of the government for not using the bargaining power of a country like India, whose balances would be used to import large quantities of capital goods, to settle the question of sterling balances in the period between the Bretton Woods Conference and the final ratification of the agreement.[148]

Third, the capitalists were opposed to the British proposal that the sterling area continue to function separately within the IMF—a position which was "recognised more or less officially". This would mean that the rupee would remain "tied to the chariot wheel of sterling" and its exchange rate would be "fixed in relation to the pound", while the consistent demand of the capitalists was that the rupee be linked to Gold and "India's freedom to fix the Rupee-sterling or the Rupee-Dollar rate should be absolutely unfettered".[149] Also, membership of the sterling group would mean

[145] Daily News Cable, US Office of War Information, 12 July 1944, *PT Papers*, fl. 324, pt. 1; FICCI to Government of India, Finance Dept., 14 July 1944, Press Note by FICCI President, J.C. Setalvad, 7 July 1944 and FICCI to Government of India, *Finance Dept.*, 18 September 1944, FICCI, *Corresp.*, 1944, pp. 56, 63, 64, 65 respectively; J.C. Setalvad, FICCI, *AR*, 1945, pp. 15–16. Britain was said to be interested in a bilateral settlement rather than a multi-lateral clearance of the war balances because it would limit India's choice of purchase abroad to Britain, while it was suspected that the US supported this stance because she was "alarmed at the prospect of...being left with the war balance baby". C.D. Deshmukh, Governor, RBI to Government of India, Finance Dept., 18 May 1944, *PT Papers*, fl. 324, pt. 1.

[146] FICCI to Government of India, Finance Dept., 18 September 1944, FICCI, *Corresp.*, 1944, p. 64; FICCI, *Proc. of EC*, 1945, pp. 20–22; A.D. Shroff, FICCI, *AR*, 1945, pp. 24–27, 30; Resolution in FICCI, *AR*, 1945, pp. 23–24; J.C. Setalvad, FICCI, *AR*, 1945, pp. 15–18.

[147] G.D. Birla to Badridas Goenka, 16 December 1945, quoted in Venkatasubbiah, *Enterprise and Economic Change*, pp. 64–66. I have discussed in some detail in Sections Ic to Ie above, why the sterling balances were considered so crucial to India's plan of rapid industrialization.

[148] FICCI Note on IMF and IBRD, 25 January 1946, *PT Papers*, fl. 354.

[149] FICCI to Government of India, Finance Dept., 12 June 1944, FICCI, *Corresp.*, 1944, pp. 52–53; C.D. Deshmukh, Governor, RBI to Government of India, Finance Dept., 18 May

that India would have to hold her "external exchange reserves, partly or wholly, in sterling, in the form of bank balances or short term investments in London" and her "surplus in (the) transactions with the non-sterling world" would be transferred to "the British authorities in exchange for sterling funds in London; that is to say, the Empire Dollar Pool arrangements (would) continue".[150] Further, being part of the sterling bloc, India would be "hitched to the apron string of the UK", and would have an unequal position within the bloc where her voice would be feeble. She would not have fiscal or monetary freedom and would not even be free to import from any country that she chose.[151] The capitalists' position, therefore, was that "if India (was) to have monetary autonomy its participation in the Fund must be on an independent and equal basis with full freedom to regulate her financial and fiscal policies..." and her "membership of the Sterling Bloc" was to be "optional and voluntary".[152]

Fourth, the capitalists strongly objected to the "Transitional Arrangements" clause in the IMF proposals because, inter alia, it had major implications both for the sterling balance question and the continuation of the sterling area. The transitional arrangement clause laid down that, "since the Fund is not intended to provide facilities for relief or reconstruction or to deal with international indebtedness arising out of the war", the normal prohibition by the Fund of exchange restrictions or controls, other discriminatory currency arrangements or exchange depreciation would not be operative on a member country "until it [the member country] is satisfied as to the arrangements at its disposal to facilitate the settlement of balance of payments differences during the early post-war transition period...".[153] This, it was argued, meant that Britain would be free to indulge in exchange restrictions and resort to depreciation of the sterling even after joining the Fund, leaving India, precisely at the time when it needed to liquidate its huge sterling balances, "completely at the mercy of the economic policies of the United Kingdom".[154]

The Transitional Arrangement clause was seen as "the fundamental clause on the question of war debts". It was argued that by giving the UK "freedom to bring about a considerable depreciation of sterling... (it)

1944; and Note on Jt. Statement of Experts on Establishment of IMF by J.V. Joshi, Senior Economist, RBI, *PT Papers*, fl. 324, pt. 1.

[150] C.D. Deshmukh, Governor, RBI to Government of India, Finance Dept., 18 May 1944, and G.D. Birla's Note on Jt. Anglo-US Statement on IMF, 13 May 1944, *PT Papers*, fl. 324, pt. 1.

[151] *Ibid.*; FICCI Note on Jt. Statement, 28 April 1944, *PT Papers*, fl. 324, pt. 1; and Note of Calcutta Sub-Committee of FICCI on International Monetary Plans, *PT Papers*, fl. 297.

[152] FICCI to Government of India, Finance Dept., 12 June 1944, FICCI, *Corresp.*, 1944, pp. 52–53.

[153] Joint Statement for Establishment of IMF, *PT Papers*, fl. 324, pt. 1. The transitional period was conceived of as between three to five years.

[154] Note on Jt. Statement, J.V. Joshi, RBI, 4 May 1944, *PT Papers*, fl. 324, pt. 1.

seriously prejudice(d) India's existing claims", i.e., the sterling balances. Also, as it was "not compulsory for a debtor country to make satisfactory arrangements with its creditor *before* qualifying itself for...membership" of the Fund, "the debtor country (could) feel itself entitled to forget all about its debt".[155] Thus, so long as the sterling balances were not liquidated, India, despite joining the IMF, would in "actual practice...not be able to act independently of the sterling" during the "transitional" period.[156] It was because the Transitional Arrangements effectively omitted the question of liquidating the sterling balances that FICCI demanded that "an Indo-British Agreement" on this question was an "essential prerequisite to India's willing and enthusiastic participation in the International Monetary Plan".[157]

Further, the Transitional Arrangements clause, it was said, virtually recognized officially the "existence of the Sterling Bloc within the Fund" (with the concomitant disadvantage to India, discussed earlier). For example, the clause provided "that a member country can maintain and adapt to changing circumstances *exchange regulations of the character which have been in operation during the war*", adding as a "pious sentiment" the proviso "that such a member country shall undertake to withdraw as soon as possible by progressive stages, any restrictions which *impede* multilateral clearing on current account." This clause, it was said, thus in the transitional period allowed "for the maintenance and adaptation by members of the sterling area... the arrangements now in force between them". Moreover, the scheme did not intend, even "when the obligation of free convertibility (was) accepted, to interfere with the traditional ties and other arrangements between members of the sterling area and London".[158]

In fact, it was pointed out that "Article XIV of the IMF, Final Act", allowed the UK an "escape clause...to continue exchange control and thereby deny free convertibility of sterling receipts earned by sterling area countries for current transactions, for a period ranging from three to five years". This clause was said to be not only "contrary to the spirit of the whole agreement" but also "largely" restricted India "in her plans of industrialisation" by making purchases of capital goods from non-sterling areas impossible. Another anamoly which further secured the position of the advanced countries in the IMF was pointed out. As a result of the Anglo-American Financial Agreement, "while both the...United States

[155] G.D. Birla's Note on Jt. Statement for Establishment of IMF, 13 May 1944; and C.D. Deshmukh, Governor, RBI to Government of India, Fin. Dept., 18 May 1944, *PT Papers*, fl. 324, pt. 1.

[156] IMC, President's Speech, May 1947, *WH Papers*, fl. 92, pt. 1.

[157] FICCI to Government of India, 12 June 1944, *PT Papers*, fl. 324, pt. 1.

[158] Jt. Statement for Establishment of IMF and Note on Jt. Statement by J.V. Joshi, RBI, 4 May 1944, *PT Papers*, fl. 324, pt. 1; G.L. Mehta's speech on Bretton Woods Agreement at meeting of General Policy Committee, 9 October 1945, *WH Papers*, fl. 81, pt. II, emphasis mine.

and the UK (could) invoke the provisions of Article XIV...of IMF and introduce... restrictions on payments and transfers for current transactions from third countries, *they (could) not impose similar restrictions in respect of payments and transfer between themselves*". The USA thus secured herself against the UK imposing any exchange restrictions. It was argued by FICCI that India too should consider whether she could "insist upon a similar privilege from the UK in spite of Article XIV...of the IMF".[159]

Fifth, the capitalists made certain demands regarding the quota assigned to India and her voice in the management of the IMF. The quota assigned was said to be important because it would determine "the distribution of voting power on the Board of Directors and the Executive Committee". It would also determine "the measure of the credits which a country may obtain in the way of foreign exchanges or gold", which would be crucial for the rate of development of countries like India. In fixing the quota, it was said, factors like "the size and population of the country, the turnover of its *internal trade*, the strategic and regional importance of the country" must be taken into consideration.[160] If trade (external or internal) was taken into account, then it was argued that considering that underdeveloped countries had "yet to make up a long leeway" in this regard, the criterion should be the anticipated or prospective trade potential rather than the past or actual figures of trade. Similarly, it was argued that taking national income as a factor in the determination of quotas would be inequitable for poorer countries like India and China, and in case it was done then at least it should be the gross national income which was considered as it would take into account the population of these countries.[161]

The capitalists argued that on the strength of the criteria suggested above India would be placed quite high among the United Nations and therefore "should be accorded an original and ex-officio seat on the Executive Committee" of the IMF. Further, it was reiterated that an international scheme like this to be successful should not be "confined to Western countries" but should include "Eastern countries" like India and China in its management. Also, it must take into account the "special requirements" of "economically backward and industrially undeveloped" countries by giving them "special weightage both in the matter of the quotas and in the management". India, like China, was said to be "entitled" to a *permanent seat* on the executive of the Fund without being exposed to the "hazards of

[159] FICCI Note on Financial Agreement between the governments of the US and the UK, 23 January 1946, *PT Papers*, fl. 354, emphasis mine.

[160] FICCI to Government of India, 12 June 1944, *PT Papers*, fl. 324, pt. 1, emphasis mine. Internal trade, as opposed to foreign trade, was suggested as a criterion because in India the former was much larger than the latter and would therefore strengthen her claims.

[161] Note by Calcutta Sub-Committee of the FICCI, on the International Monetary Plans for the Post War Period, *PT Papers*, fl. 297; C.D. Deshmukh, Governor, RBI to Government of India, Finance Dept., 18 May 1944, *PT Papers*, fl. 324, pt. 1.

an election", both on the grounds of regional distribution and special representation of underdeveloped countries.[162] In fact, J.C. Setalvad, the FICCI President, asserted that India "must definitely *insist* on obtaining a permanent seat on the Executive Committee of the International Monetary Fund".[163] The FICCI in a resolution in 1945 regretted that in the Bretton Woods Conference India was not offered a permanent seat on the proposed executive of the Fund and reiterated "its view that participation of India in the International Monetary Fund or the Bank [IBRD] should not be agreed to unless India is given a permanent seat on the Executive Board of the International Monetary Fund".[164]

Similarly, regarding the proposed World Bank (or the IBRD), it was feared by some that the Board of such a bank, where voting power was dependent on shares held, would be dominated by two or three rich countries, particularly the United States. This domination combined with the "conservative" and "rigid" terms and conditions of lending did not generate much hope of the Bank facilitating the economic reconstruction and development of backward countries. Moreover, if backward countries like China and India suspected that international credit would be made available to them on terms and conditions which appeared "to be the opening wedge of international economic penetration in those countries" and they refused to avail of the Bank's facilities on this ground, then the "utility of the Bank itself (would) be seriously reduced". It was stated most unequivocally that "any suspicion...that the scheme is merely the apparatus of a new type of colonialism and economic penetration would heavily weigh the chances of success against the scheme from the beginning". The Bank could work successfully only if it was "backed by a suitable economic plan for the rapid development of the backward countries". Also, the backward countries would have to be suitably represented in the administration of the Bank and they would have to have an "adequate voice in all schemes which touch[ed] them".[165] Significantly, even later (November 1946), after India had already joined the International Bank, the example of the US withdrawal of credit to Poland and Czekoslovakia and increase of credit to Greece and Saudi Arabia on political grounds was cited by the *Eastern Economist* to warn of the International Bank being subjected to "dangerous

[162] *Ibid.;* and FICCI to Government of India, Finance Dept., 12 June 1944, *PT Papers*, fl. 324, pt. 1.

[163] FICCI, *AR*, 1945, p. 16, emphasis mine. There were some like A.R. Bhatt (Mahratta Chamber of Commerce and Industry, Poona) who argued that there was no need to insist on a permanent seat, that too to a breaking point, as one of the five elected seats could be ensured for India, FICCI, *AR*, 1945, p. 35.

[164] FICCI, *AR*, 1945, pp. 23–24. The other condition for participating in the IMF, that the resolution mentioned, was an agreement with UK regarding the sterling balances.

[165] The arguments above are from *EE*, 26 November 1943, pp. 983–84; and *EE*, 21 July 1944, p. 61.

political influence and its credit policy being influenced by that of the US government".[166]

However, despite all the objections and apprehensions discussed above the Indian capitalists, on the whole, favoured India's participation in the Fund and the Bank. The awareness of the "dangers" in joining such organizations was to lead to greater vigilance in protecting Indian interests, not to opting out of such organizations altogether.

While criticism was made of the Bretton Woods Agreement being ratified without previous reference to the Indian legislature, the quota being insufficient, the sterling balance question not being satisfactorily settled, etc., the general feeling among the capitalists was that it would still be advantageous to India to join the international institutions proposed by the Bretton Woods Agreement, especially as the non-ratification of the Agreement by the USSR assured India of a permanent seat on the executive of the Fund.[167] There was overall support for India becoming an original member of the IMF and the IBRD and satisfaction at the subsequent ratification of this decision by the Legislative Assembly.[168]

The main "advantage" seen in India's participation in the Fund and the Bank was that it would help her acquire foreign exchange (especially hard currency) necessary to purchase capital goods and "proceed rapidly with (her) plan of development", with less chances of political domination and at lower costs than what would be available from other foreign sources.[169] Also, the IMF would reduce the "opportunities for violent fluctuations of exchange or the permanent retention of restrictions on exchange" and minimize the possibility of a post-war economic depression.[170] In any case, it was felt that, "if India decided to remain outside, she would be all the more at the mercy of the United Kingdom than if she were an independent member of the International Monetary Fund".[171]

There were some who continued to argue that India should not participate in any international body like the IMF (even if a permanent seat in the Executive was given and the sterling balance question was taken up) until she achieved a national government as otherwise the advanced countries would dominate these organizations and India would be caught in their

[166] *EE*, 1 November 1946, p. 710.

[167] Badridas Goenka, Presidential Speech, FICCI, *AR*, 1946, pp. 11–12; Purshotamdas to Goenka, 12 December 1945, *PT Papers*, fl. 354. See also Venkatasubbiah, *Enterprise and Economic Change*, pp. 64ff.

[168] *EE*, 8 November 1946; K.D. Jalan, Presidential Speech, second quarterly meeting, ICC (Cal.), 14 November 1946, *WH Papers*, fl. 70.

[169] C. Seshachalam (Andhra Chamber of Commerce), in FICCI, *AR*, 1945, p. 32; Badridas Goenka, Presidential Speech, FICCI, *AR*, 1946, pp. 11–12; FICCI note on IMF and IBRD, 25 January 1946, *PT Papers*, fl. 354.

[170] *Ibid.*; and A.R. Bhatt, FICCI, *AR*, 1945, pp. 34–35.

[171] Note on Jt. Statement by J.V. Joshi, RBI, 4 May 1944, *PT Papers*, fl. 324, pt. 1.

"political stranglehold".[172] However, A.D. Shroff, one of the most astute watchdogs of Indian interests on this question, expressed the general opinion of the capitalists when he argued that it would be wrong if not also suicidal to boycott these international conferences (organizations) especially since "we are on the threshold of attaining our national status and will be able to participate in these conferences with an independent mind and with full scope to express our wants, requirements and interests".[173]

Undoubtedly the imminent national independence was a major factor in the calculations of the capitalist class and gave them greater confidence in entering international organizations. India was to insist on an independent monetary policy on joining the IMF as an "equal partner" but it was not to follow in C. Seshachalam's expressive phrase an "iso-nationalist" policy.[174] India could now, with the strength of the imminent national state, join the IMF even while fully realizing that she "along with other members of the Fund, (would) have to forego a portion of her financial sovereignty in the interest of international co-operation...".[175]

[172] See, for example, Begraj Gupta (Marwari Chamber of Commerce, Bombay), Speech (Hindi) in FICCI, *AR*, 1945.

[173] FICCI, *AR*, 1946, pp. 100ff.

[174] FICCI, *AR*, 1945, p. 31.

[175] FICCI Note on IMF and IBRD, 25 January 1946, *PT Papers*, fl. 354.

SIX

Tariffs, Trade and Industry I: 1916–30

I. Introduction: Industrial Policy of the Government of India

Rapid industrialization was central to the Indian capitalists' developmental outlook. However, the overall economic policy followed by the colonial state, particularly its fiscal and monetary policy, proved to be a basic hurdle in this path. The instruments of state policy, which had played a crucial role in all countries which launched on the path of industrialization, in the Indian case only served to deepen colonial underdevelopment.

Though in name the Government of India had an "industrial policy", for quite some time it was at best ineffectual and at times even harmful. Modern industry in India, which started around the middle of the nineteenth century, was at its very infancy faced with a hostile colonial government. Economic principles like laissez-faire, free trade, insistence on a balanced budget and other such tenets of financial orthodoxy formed the ideological underpinnings of the policies adopted by the colonial government, which cynically made selective use of these principles to deny Indian industry any protection or other forms of state support.[1] Beginning from 1882 to the start of the First World War, the tariff and excise policy of the colonial government gave Indian industry the unique distinction of receiving no protection whatsoever, whether direct or indirect. There were even attempts to neutralize through labour legislation whatever advantage Indian industry could muster because of lower labour costs.

The sum total of government initiative for industrial development in the late nineteenth century, in the words of the government appointed Indian Industrial Commission, 1916–18, amounted to "a very imperfect provision

[1] See Romesh Dutt, *The Economic History of India in the Victorian Age*, Sixth edition, London, 1903; S. Bhattacharya, *Financial Foundations of the Raj*, Simla, 1971.

of technical and industrial education, and the collection and dissemination of commercial and industrial information".[2] The Commission cited the Calcutta exhibition of 1884–85, the "institution about 1890 of a series of provincial monographs on Indian industries", etc., "as isolated and desultory efforts in the same direction". Even such efforts, it added, were "due rather to a few far-sighted individual officers than to any considered and general policy on the part of the Government".[3]

It was only in 1905, at Viceroy Curzon's initiative, that a Department of Commerce and Industry was created under the charge of a member of the Viceroy's Council.[4] In the following few years the provincial governments of the United Provinces and Madras made some small efforts to promote ventures like sugar factories, oil mills and units producing aluminium ware, by providing technical education and know-how, loans, grants and, as in the last case, by the government itself setting up a plant.[5] An industrial conference held at Ootacamund in 1908 further recommended that government agencies should experiment and demonstrate the viability of industries on a commercial scale.[6]

However, these incipient attempts at promoting industry, and especially the recommendations of the Ootacamund conference, were quashed by Morley, the Secretary of State. Morley in his famous despatch of 29 July 1910 made it clear that state effort was to be "strictly limited to industrial instruction", avoiding "the semblance of a commercial venture". He laid down that "State funds might be expended upon familiarising the people with such improvements in the methods of production as modern science and the practice of European countries could suggest. Further than this the State should not go...".[7] Further, as the Industrial Commission Report of 1918 pointed out, even after Morley's departure and the coming in of Lord Crewe, who took a somewhat broader view, the government had "neither the organisation nor the equipment to give effect even to the comparatively limited policy sanctioned by Lord Morley".[8] Significantly, the European commercial community in India supported Morley's stance and argued that the provincial governments' efforts at promoting industries were a "serious menace to private enterprise and an unwarrantable intervention on the part of the State in matters beyond the sphere of Government"; the Indian public, however, was in favour of such policies being pursued.[9]

[2] *Indian Industrial Commission Report: 1916–18*, Calcutta, 1918 (henceforth *IICR*, 1918), p. 75.
[3] *Ibid.*
[4] *Ibid.*, Bagchi, *Private Investment* p. 50.
[5] *Ibid.*, pp. 50ff.; *IICR*, 1918, pp. 76–77.
[6] *Ibid.*, p. 78.
[7] *Ibid.*, pp. 78–79. See also, Padmini Swaminathan, "State Intervention in Industrial Development; A Case Study of Madras Presidency", paper presented at the Seminar on South Indian Economy, 1914–1945, Centre for Development Studies, Trivandrum, April 1988.
[8] *IICR*, 1918, pp. 79–80.
[9] *Ibid.*, p. 78.

It was during the First World War that the "stress of war necessities" led to some change in the attitude of the government, which now saw the need for a "policy of state participation in industrial development". The appointment of the Industrial Commission in 1916 was itself a pointer in that direction.[10] However, the narrow limits of the change in government policy were illustrated by the fact that, while the commission was asked to investigate the possibilities of further industrial development in India, *"any consideration of the present fiscal policy of the Government" was excluded from its scope*![11] This meant that a crucial instrument of state policy such as fiscal policy could not be harnessed to promote Indian industrial development. The Commission was specifically not permitted to consider "proposals involving the imposition of duties for the specific purpose of protecting the Indian industries, a policy which", it was said, "would very directly affect the fiscal relations of India with the outside world".[12]

The Industrial Commission in its fairly comprehensive report showed awareness of the need in India of developing key and basic industries and social overheads, providing technical and industrial education, etc.[13] However, even the limited recommendations that the Commission could make, within the narrow scope set for it by the government, could not be implemented to any satisfactory degree. With the cessation of the war the impetus for the new industrial policy had considerably weakened. Under the Montague-Chelmsford reforms of 1919 the industries departments were made a provincial subject and for all practical purposes they functioned merely to supply commercial intelligence and provide technical and other assistance to minor and small-scale industries.[14] Further, the industries departments, which tended to be the first victims of retrenchment, operated with extremely limited staff and financial resources. For example, Clive Dewey, who cannot be accused of being even remotely anti-imperialist and critical of the colonial government, acknowledges that the budget of one business house, the Tatas, far exceeded the total financial resources of the industries departments of the provinces where they operated![15]

The Department of Industries was set up as part of the central administration in 1921 under the direction of Sir Thomas Holland (the Chairman of the Industrial Commission, 1916–18) and the same year it was *"stripped of all its major responsibilities except the protection of labour"*.[16] (Labour

[10] *Ibid.*, p. XIX.

[11] *Ibid.*, p. XV; and Resolution appointing the Industrial Commission, quoted by Madan Mohan Malaviya in his separate Note to the Commission's Report, *ibid.*, pp. 292–93.

[12] *Ibid.*

[13] See, for example, *IICR*, 1918, pp. 54–56, 148ff. 278–89.

[14] Bagchi, *Private Investment*, 1972, pp. 53–58; Clive Dewey, "The Government of India's New Industrial Policy, 1900–1925", in C. Dewey and K.N. Chaudhuri eds, *Economy and Society, Essays in Indian Economic and Social History*, Delhi, 1979.

[15] *Ibid.*

[16] *Ibid.*, emphasis mine. See also, Tomlinson, *Political Economy of the Raj*, pp. 59–60.

protection was of course the last thing which was likely to push industrialization in a backward country; all the advanced countries having made their own initial spurts of industrialization with hardly any provisions for welfare of labour.)[17] In the 1920s and 1930s, whatever little gain that was made by Indian industry due to the policy of "discriminating protection" was considerably negated by the fiscal and monetary deflation resorted to by the government.[18]

Clearly what determined India's industrial fate was not what was designated as the Government of India's "industrial policy" or what was done or not done by the industries departments. Far more important in this regard was what happened to India's currency and fiscal policy, the nature of international trade agreements entered into by India and so on.

In the following four chapters on tariff, trade and industry I will examine the Indian capitalists' response to the colonial state's attitude towards Indian industrial development. In the first chapter I will discuss the Indian capitalists' response to the shift in British fiscal policy since the First World War—a shift occasioned by the war itself and by the changes in Britain's economic relationship vis-à-vis India and the rest of the world. In Chapters 7 and 8, I will discuss their response to the various trade agreements such as the Ottawa, Mody-Lees and Indo-British Trade Agreement, 1939, which were the product of this changed international context particularly since the Great Depression of the 1930s.

In Chapter 9, I will discuss, with some case studies, the unsuccessful efforts made by the Indian capitalists to capitalize on the opportunity provided by the Second World War for launching a process of rapid industrialization in the context of the policies of the colonial state, whose priorities clearly lay elsewhere. In this chapter I will also look at the Indian capitalists' efforts to protect India's interests in the international trade agreements which were being contemplated at the end of the war, with the objective of ushering in a new world order.

Ia. Impact of Economic Changes Since the First World War on Fiscal Policy

The chief determinants of British tariff policy in India from about the mid-nineteenth century were by no means the interests of Indian industrial

[17] The early nationalists in the nineteenth century had opposed government labour legislation on the ground that it would severely affect the competitiveness of Indian infant industry and that these measures were inspired by Lancashire with precisely this end in view. See Chandra, *Rise and Growth of Economic Nationalism*, pp. 327–55.

[18] See Chapter 4, Section IV; Bagchi, *Private Investment*, Chapter 2. For a comprehensive account of the Madras government's meagre role in aiding industry in the inter-war period, see Nasir Tyabji, "State Aid to Industry: Madras 1921–37", *EPW*, Vols 23, 31, 1988, pp. PE-51-PE-62.

development. The important factors in this context were (*a*) the necessity of raising enough revenue in India to, inter alia, enable the government to meet its sterling remittance requirements including the home charges, (*b*) ensuring a large enough export surplus for India which again was necessary for smooth remittance,[19] (*c*) need to maintain British exports in the context of increasing competition of other industrialized countries and the falling international competitiveness of her own industries, and (*d*) mounting political pressure from British exporting interests, such as of Lancashire, and of Indian business interests as well as general public opinion.

The First World War marked a watershed in British tariff policy because of the changes in the above factors. The pressures that existed in the earlier period were greatly aggravated during and in the period following the war.

As Table 6.1 shows, the Government of India's budget did not show a deficit between 1888 and the outbreak of the First World War, except for a few years in the 1890s (when tariffs were reimposed though along with counterveiling excise duties to avoid the semblance of any protection) and for the year 1908. In fact between 1881 and 1910 the quinquennial averages show a surplus budget throughout. However, since 1914, with the onset of the World War, the budget began to show regular deficits. In contrast to the earlier period, the quinquennial averages between 1916 and 1935 showed a deficit throughout, with the average of the surplus and deficit of the years 1936 to 1938 barely breaking even.

Even the intermittant revenue constraints faced by the Government of India since the mid-nineteenth century had repeatedly forced it to strongly argue in favour of tariff duties (though generally without much success), despite the powerful opposition of the Lancashire lobby and the strong pressure to stick to the principles of "free-trade" and laissez-faire.[20] However, as we saw above (Table 6.1), the revenue situation deteriorated abysmally after the First World War, making it imperative for the government to depend increasingly on tariffs to balance its budget.

Customs duties, which had started gradually increasing in importance as a source of revenue since the 1890s,[21] rapidly became the most important

[19] The Government of India's sterling obligation or remittances were met by utilizing an equivalent amount in rupees out of the government's revenues to purchase the necessary hard currency earned by India through her export surplus. Smooth remittance therefore could occur only if the Government of India could generate a *budgetary surplus* equal to the *remittance*, and the export surplus was sufficient to convert the former into the latter. When these conditions did not prevail, the government was forced to adopt measures such as introducing revenue tariffs, borrowing at home and/or abroad, using up India's currency reserves, altering the Rs/Stg exchange rate or resorting to a combination of fiscal and monetary manipulation. See Chapters 3 and 4 in this volume.

[20] See Dutt, *The Economic History of India*; and Bhattacharya, *Financial Foundations of the Raj*.

[21] See Thomas, *The Growth of Federal Finance in India: Being a Survey of India's Public Finance from 1833 to 1939*, Appendix F, Table 5.

Table 6.1

Surplus or Deficit in Revenue and Expenditure (Gross) of British India (Central and Provincial Governments): 1881–1938

Year	*Surplus (+) or Deficit (–) (in crores of rupees)*	*Year*	*Surplus (+) or Deficit (–) (in crores of rupees)*
1881	+3.6	1911	+5.9
1882	+0.4	1912	+4.6
1883	+1.8	1913	+3.5
1884	–0.4	1914	–2.7
1885	–2.8	1915	–1.8
Average	+0.5	Average	+1.9
1886	+0.2	1916	+11.2
1887	–2.0	1917	+12.2
1888	+0.1	1918	–5.7
1889	+2.6	1919	–23.6
1890	+3.7	1920	–26.0
Average	+0.9	Average	–6.4
1891	+0.4	1921	–36.4
1892	–0.8	1922	–16.5
1893	–1.5	1923	+5.2
1894	+0.7	1924	+8.6
1895	+1.5	1925	+4.9
Average	+0.0	Average	–6.8
1896	–0.7	1926	–3.8
1897	–5.4	1927	+1.8
1898	+3.9	1928	–1.7
1899	+4.1	1929	+1.1
1900	+2.4	1930	–22.7
Average	+0.6	Average	–5.0
1901	+7.3	1931	–15.3
1902	+4.7	1932	+2.9
1903	+4.5	1933	–3.1
1904	+5.3	1934	+1.2
1905	+3.1	1935	+0.3
Average	+5.0	Average	–3.4
1906	+2.4	1936	–1.1
1907	+0.5	1937	+2.7
1908	–5.7	1938	–1.3
1909	+0.9		
1910	+5.9		
Average	+0.8	Average	+0.1

Source: From P.J. Thomas, *The Growth of Federal Finance in India: Being a Survey of India's Public Finance from 1833 to 1939*, London, 1939, pp. 496–97.

source of revenue for the Government of India in the twentieth century, especially after the First World War (see Table 6.2). Between 1901–5 and 1916–20, the proportion that customs represented of the total principal revenues of the Government of India had nearly doubled from 10.9 per

Table 6.2

Principal Revenues (Net) of British India and Customs as percentage of total principal revenues: 1901–37 (in crores of rupees)

	Land Revenue	*Customs*	*Income Tax*	*Salt*	*Excise*	*Opium*	*Railways*	*Customs as percentage of (1 to 7)*
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1901–1905	23.5	5.8	1.9	7.6	7.0	5.2	2.1	10.9
1906–1910	24.8	7.4	2.2	4.7	9.1	6.8	1.6	13.0
1911–1915	26.2	9.6	2.5	4.8	12.0	3.6	5.9	14.9
1916–1920	26.0	20.0	12.5	6.1	16.3	3.0	12.3	20.8
1921–1925	30.3	41.1	17.5	6.0	16.4	1.7	2.2	35.7
1926–1930	29.3	47.7	15.3	5.9	17.1	2.7	5.9	38.5
1931–1935	28.3	49.5	17.0	8.1	13.0	0.7	0.0	42.5
1936	28.3	52.0	14.5	7.7	13.5	0.2	0.0	44.8
1937	25.7	44.8	13.1	7.3	13.1	0.3	2.8	41.8

Source: Columns 1 to 7 from Thomas, *The Growth of Federal Finance in India: Being a Survey of India's Public Finance from 1833 to 1939*, London, 1939, pp. 500–1.

* Quinquennial Averages except for 1936 and 1937.

cent to 20.8 per cent. By 1920, customs duties had for the first time in the colonial period overtaken land revenue as the principal source of revenue.[22] After the 1920s the importance of customs duties continued to increase rapidly, and by 1936 they represented nearly 45 per cent of the principal revenues of the Government of India! (See Table 6.2.)

It is also to be noted that because of various political and economic reasons, land revenue and salt stagnated as sources of revenue between 1901 and 1937, opium showed a secular decline, and the railways remained an uncertain source of revenue, declining to near insignificance by the end of the period. This while total revenue more than doubled over the period. The revenue increase was met by increases in customs, income tax and excise. *Customs alone met about 72 per cent of the increase in total revenue between 1901–5 and 1936–37* (see Table 6.2). The role of customs, in which the share of import duties was preponderant,[23] was thus critical for the Government of India's financial viability and for the maintenance of the rapidly increasing remittances of the Government of India on account of home charges, military expenditure, etc.[24]

In sharp contrast to the pre-war situation, since the First World War Britain permitted rapid and major rises in import duties on goods (including British goods) coming to India. The financial burden of the war had necessitated an enhancement of the general import duty (excluding cotton textiles) from 5 to 7.5 per cent in 1916. The very next year, 1917, cotton tariffs also went up to 7.5 per cent (the cotton excise of 3.5 per cent levied since 1896 remained unchanged), partially to enable India to pay the £100 million war gift. In 1921 the general tariff went up to 11 per cent (including cotton) and in 1922 it rose to 15 per cent, with the cotton duties remaining at the 1921 level. By September 1931 British cotton goods were paying an import duty (including surcharge) of 25 per cent and non-British goods 31.25 per cent. The duty on non-British (mainly Japanese) cotton goods had risen to an incredible 75 per cent by 1933. (After this, as we will see later, through a series of Indo-Japanese and Indo-British trade agreements the duties were brought down considerably, though still remaining much above the pre-war levels.) The course followed by the import duties bore a close relation to the contours of the Government of India's budgetary problems (see Table 6.1).[25]

[22] *Ibid.*

[23] See, for example, *Report of Indian Fiscal Commission, 1921–22* (henceforth Fisc. Com. Rep. 1922), Delhi, 1937, p. 13.

[24] See for rapid increases in defence expenditure and home charges in the twentieth century, especially since the First World War, Thomas, *The Growth of Federal Finance in India*, Appendix F, Table 6, p. 502; Ray, *Industrialisation in India*, Tables 1 & 2, pp. 11 and 13. See also, Chapter 3 in this volume, Section I.

[25] The figures in the above para are taken from, *Fisc. Com. Rep. 1922*, pp. 11–12; Tomlinson, *Political Economy of the Raj*, pp. 110–13, 123; Bagchi, *Private Investment*, pp. 239–42. The account of import duties given here is by no means comprehensive, I have only selected some of the important landmarks.

The fact that the British government was quite conscious of the crucial role played by customs duties, especially import duties, is very well illustrated in a note by Samuel Hoare, the Secretary of State, where he strongly argued against the powerful Lancashire agitation for removal of cotton duties and tried to rub in the point that, apart from the "disastrous" political consequences that such a course of action was going to produce, it was important to recognize that "the present level of tariff upon British cotton goods" was necessary for revenue purposes and was not meant to be protective, and that "without this revenue India would be unable to discharge its financial obligations in this country [including the Home Charges] and to provide for military expenditure".[26]

The First World War also marked a watershed in terms of the nature of political pressure exerted on the government to reform its tariff policy to suit Indian industrial development. The Indian national movement entered the mass phase in the post-war period and the sanction behind its demands and the nationalist demands of the Indian business interests increased considerably,[27] forcing the colonial state to make some concessions in this direction.

Lastly, two other factors weighed heavily with the makers of tariff policy in India. On the one hand, the fact that British industry was in the twentieth century rapidly losing international competitiveness,[28] and was forced to concede the Indian market in several industrial products to other foreign countries, was one of the reasons why it preferred to protect Indian industry in such areas rather than let foreign countries move in.[29] On the other hand, the fact that British exports were falling partially because of the rapid growth of protectionism and economic nationalism in most

[26] Samuel Hoare, Secretary of State to Kirpatrick, M.P., 3 February 1933, *L/PO/*270, IOR, London.

[27] As I have shown elsewhere, the Indian capitalists clearly saw the link between the growing strength of the Indian national movement and their own ability to wrench concessions from the government (see Chapters 2 and 3 in this volume). As for the greatly increased British sensitivity to the mounting political pressure in India—the government files are replete with examples of this, see, for example, correspondence between the Secretary of State and the Viceroy, September–October 1931, *L/PO/*5011, IOR, London; Government of India, Commerce Dept. to Secretary of State, 21 and 22 July 1934, *L/E/*9/1032, IOR, London.

[28] See Basudev Chatterjee, "Lancashire Cotton Trade and British Policy in India, 1919–1939", D. Phil. dissertation, University of Cambridge, 1978: Introduction, pp. 1–34, for an excellent analysis of the changes in the British economy vis-à-vis India and other foreign countries.

[29] B.P. Adarkar, *The Indian Fiscal Policy*, Allahabad, 1941, pp. 468–73, shows how protection to steel, cotton textiles, sugar, paper, matches, magnesium chloride, gold thread, plywood and the tea-chest industry was related to competition from the continent, China and Japan, Java, Scandinavia, Sweden, Germany, France and Finland respectively, eroding the British hold over the Indian market. Conversely, protection was not easily forthcoming in areas where Britain was the chief competitor, for example, cement, heavy chemicals, locomotives, etc.

countries in the inter-war period, and partially because British goods were becoming less competitive vis-à-vis foreign and sometimes even Indian goods, led Britain to make a last ditch attempt to secure for itself as much of the colonial markets (India being the single largest market up to 1935) as possible,[30] through several measures including imperial preference.

It is in this overall context of imperial needs and compulsions that the changes in tariff policy after the war—the announcing of the Fiscal Autonomy Convention in November 1919, the appointing of the Fiscal Commission in October 1921 and the introduction of discriminating protection and imperial preference—were to occur. We shall look into these new initiatives in some detail as they laid the broad parameters within which British tariff policy functioned virtually till independence.

II. The Fiscal Autonomy Convention, 1919 and the Fiscal Commission Report, 1921–22

In November 1919, the Joint Select Committee of both houses of the British parliament recommended the so-called Fiscal Autonomy Convention for India. The recommendation was accepted by the Secretary of State in June 1921.[31] The Select Committee explained why the fiscal autonomy had to be a Convention and could not be a Statute: "It cannot be guaranteed by statute without limiting *the ultimate power of Parliament to control the administration of India,* and without limiting the power of veto which rests in the Crown.... It can only therefore be assured by an acknowledgement of a convention."[32]

This obeisance to the "ultimate power" of the British parliament and the "veto" of the Crown hardly squared with the claim that the Fiscal Autonomy Convention would give India "the same liberty to consider her interests" in matters relating to fiscal policy "as Great Britain, Australia, New Zealand, Canada and South Africa".[33] This claim became even less tenable if one considered the stipulation made in the Convention that "the Secretary of State should as far as possible avoid interference on this subject *when the Government of India and its Legislature are in agreement,* and... his intervention, when it does take place, should be limited to safeguarding the international obligations of the Empire or any fiscal arrangements within the Empire to which His Majesty's Government is a party".[34]

What "autonomy" did these conditions leave India? First, the Government of India's position was, to begin with, formulated in accordance with

[30] See fn. 28.
[31] *Fisc. Com. Rep.*, 1922, p. 13.
[32] Quoted in *ibid.*, p. 3, emphasis mine.
[33] The Report of the Joint Select Committee quoted in *Ibid.*, p. 3.
[34] *Ibid.*, emphasis mine.

overall imperial interests under the direction of the Secretary of State who consulted the Board of Trade and British commercial interests. As Sir George Rainy, the Commerce Member, made clear in 1930: the Fiscal Autonomy Convention meant that "there is always *previous* consultation with the Secretary of State" before the Government of India places its final proposals before the legislature.[35] Further, the Secretary of State was to firmly remind the Government of India that the intricacies of the working of the Fiscal Autonomy Convention may be unclear to the "world at large", but the Government of India should have no doubt that "prior consultation with the Secretary of State in regard to fiscal matters" was not a "mere formality" but "a real and essential part of the procedure we have adopted".[36]

Second, considering that the Government of India would have "consulted" the British government (and thus accommodated British interests) before placing proposals before the Indian legislature, the disputes between the Government of India and the legislature would normally occur on the question of preserving British interests at India's cost. When and if the Government of India and the Legislature failed to agree, then, as Sir George Rainy put it, "The Convention is at an end" and "under the present (1919) constitution.... The Government of India comes once more under the control of the Secretary of State."[37]

Third, very little room for manoeuvrability for pursuing Indian interests existed if the Secretary of State could intervene in all fiscal measures which could be shown to have a link with "safeguarding the international obligations of the empire" or which affected "any fiscal arrangements within the Empire to which the Majesty's Government is a party". For example, this meant that India could not independently enter into commercial agreements with foreign governments—a restriction which was removed from the Dominions in 1907.[38]

Whatever be the claims, in actual practice the influence of the Secretary of State on India's fiscal policy remained considerable and at several crucial points proved to be decisive. For example, when British interests were threatened, recommendations of Tariff Boards appointed by the Government of India were often not accepted and sometimes even suppressed, as in 1932, recommendations of government-appointed commissions were not accepted, such as the recommendation of constituting a permanent tariff board made by the 1922 Fiscal Commission, the Government of India was ordered to push through tariff agreements by certification in the legislature when the latter rejected it, as in the case of the Indo-British Trade

[35] *LAD*, 1930, Vol. III, pp. 2257–58, Quoted in Adarkar, *Indian Fiscal Policy*, pp. 595–99.
[36] Secretary of State to Willingdon, Viceroy, 27 October 1934, *L/E/9/1032*, IOR, London.
[37] See fn. 35.
[38] Adarkar, *Indian Fiscal Policy*, p. 600.

Agreement of 1939, and so on. And, of course, as we will see later, the commercial safeguards incorporated in the 1935 Act, which prevented any discrimination against British goods and companies, took away further from the notion of fiscal autonomy of India.

Imperialist historiography has however seen the Fiscal Autonomy Convention as leading to major sacrifices for British interests in India's favour. It has been seen as the "proximate cause" of the "deliberate surrender of the largest export market in the world for a stable British manufacture" (cotton textiles).[39] There was in fact no "deliberate surrender" of the British market in India. As we argued above, Britain was unable to maintain its exports, despite using imperial preferences and other measures to thwart protectionism in India,[40] because of the crisis in her own economy and the fall in its international competitiveness. Also, Indian industry was able to get a certain amount of protection partly because of factors independent of British initiative, such as the two world wars and the Depression which weakened Britain's grip over the Indian economy and provided some natural protection to Indian industry, and partly because of the "catch-22" or contradictory position British colonialism in India was placed in, where to meet one imperial interest, that of securing remittances from India to meet the rapidly increasing home charges and military expenditure and to strengthen the sterling,[41] it had to depend heavily on custom revenues raised in India, thus partially overriding another imperial interest, that of maintaining its export markets. There was no "deliberate surrender" or decolonization involved in all this.[42]

The chief role of the Fiscal Autonomy Convention in practice was to give the "Government of India some elbow-room" to devise fiscal measures necessary to maintain wider imperial interests, without being too closely hemmed in by the constant pressures of lobbies like Lancashire, as it was earlier.[43] In fact even the Secretary of State at times used the Convention to resist Lancashire pressure (often expressed through the British Cabinet) and supported the Government of India in its efforts to raise enough revenue through custom duties to meet its imperial requirements.[44] Apart

[39] Dewey, "The End of the Imperialism of Free Trade"; see also Drummond, *British Economic Policy and the Empire*, for similar views.

[40] For example, an attempt was made to use the princely states, "Muslims and other minorities", as "breaks" or "influences" against those arguing for protection against Britain. See note by the Secretary of State, 3 February 193_, *L/PO*/270, IOR, London.

[41] See Chapter 1 and Chapter 3 in this volume.

[42] See Chapter 1 in this volume.

[43] See Chatterjee, "Lancashire Cotton Trade", p. 82.

[44] See, for example, Samuel Hoare, Secretary of State, to Kirpatrick, 3 February 1933, *L/PO*/270, IOR, London; and Secretary of State to L. Kershaw, 28 January 1931, *L/PO*/50/II, IOR, London. Of course, the Convention did not prevent the Home Government from intervening on behalf of Lancashire and other British industrial interests, when it chose to, by asking the Board of Trade or the Secretary of State to influence the Government of India's decisions on

from this, to the extent that the Convention mollified Indian opinion, "the political benefit made it virtuous".[45]

Though Britain was now willing to subordinate its market or industrial export interests to its financial interests (that of securing remittance to strengthen the sterling and finance the home charges, military expenditure, etc.), she was not willing to altogether give up the former. Forced to increase overall tariffs (see pp. 179–80), the effort was now to bargain for imperial preference to British goods in return—i.e., the aim was to raise revenue through tariff duties without, as far as possible, damaging British exporting interests. However, given the political situation in India, it was felt that "imperial preference" could not be introduced without a review, by a Commission which commanded some credibility in India, of the "general question of the fiscal policy to be adopted by India".[46] Consequently, in October 1921, the Government of India decided to appoint a Fiscal Commission, the terms of reference to which were "to examine with reference to all the interests concerned the Tariff policy of the Government of India, including the question of the desirability of adopting the principle of Imperial Preference, and to make recommendations".[47] The Commission, meeting the demands of Indian commercial chambers, had an Indian majority, seven members out of 11 (J.M. Keynes, Vice-President, having had to drop out in the middle of the Commission's proceedings), as well as an Indian President, Sir Ibrahim Rahimtoola.[48] Apart from the President, the Commission had members like G.D. Birla and Narottam Morarjee who commanded the confidence of Indian commercial opinion.

However, the Commission made several controversial recommendations, including the provision for imperial preference, and five of the Indian members, Sir Ibrahim Rahimtoola (President), G.D. Birla, T.V. Seshagiri Ayyar, Jamnadas Dwarkadas and Narottam Morarjee had to write a minute of dissent.[49] In the following section we shall examine the Indian capitalists' response to the changes in post-war tariff policy, especially the recommendations of the Fiscal Commission, which were the foundation of the overall fiscal policy followed till independence.

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fiscal matters. In fact there was a move, in the 1930s, to make the Secretary of State intervene more "effectively" in the Indian government's decision making. See Note by Economic and Overseas Department on Trade Depression, the Boycott of Foreign Goods, Protection in India and the Fiscal Autonomy Convention, with Special Reference to Lancashire Trade, 12 September 1931, *L/PO*/52; and correspondence between Viceroy and the Secretary of State, September–October 1931, in *L/PO*/50 II, IOR, London.

[45] Chatterjee, "Lancashire Cotton Trade", p. 82.

[46] *Fisc. Com. Rep. 1922*, p. 4 and Chatterjee, "Lancashire Cotton Trade", pp. 107–11.

[47] *Fisc. Com. Rep. 1922*, p. 6.

[48] *Silver Jubilee Souvenir*, FICCI, p. 28.

[49] *Fisc. Com. Rep. 1922*, pp. 160–96.

IIa. The Indian Capitalists' Response

The Indian capitalists correctly perceived that there was no genuine fiscal autonomy for India under the Fiscal Autonomy Convention. They were aware, for example, of how, while considering protection to any industry, the Government of India had prior consultation not only with the Secretary of State but also with British commercial interests; and consequently, they strongly agitated against it.[50] A.D. Shroff neatly summed up, in 1936, the functioning of the Fiscal Autonomy Convention over the years: "there has been more of convention, very little of fiscal-freedom and nothing of autonomy".[51]

The rise in import duties since the First World War, the Indian capitalists pointed out, did not reflect any concern for the interests of Indian industry but was a result of the government's pressing need for revenue, which in turn was necessary for maintaining remittance.[52] In any case, it was said, often the low protective duties contemplated had hardly any impact on Indian industry as the small gain was totally negated by the far greater cheapening of imports through the artificial appreciation of the rupee.[53] The contrast with countries like England and Japan, which gave corresponding protection to their industries to the extent of the appreciation of their currency, was often highlighted.[54]

The recommendations of the Indian Fiscal Commission, 1922, which formed the basic guidelines of Indian fiscal policy in the ensuing years till independence, left the Indian capitalists far from satisfied. The capitalists had from the beginning, through their minute of dissent to the Commission's report, spelled out their basic reservations to the new policy. They became increasingly critical of this policy over the years, as the impact of this policy began to be seen.

[50] See, for the agitation in India regarding consultation with British Iron and Steel interests before deciding on protection to this industry, "Iron and Steel Protection Bill", 1934, *L/E/9/1032*, IOR, London.

[51] FICCI, *AR*, 1936.

[52] N.R. Sarkar, Presidential Speech, BNCC, 5 February 1932, *PT Papers*, press clippings, fl. 11.

[53] For example, Purshotamdas pointed out in 1927 how it was useless protesting too much against the government rejecting a 4 per cent protection to the textile industry recommended by the Tariff Board, because the pegging of the rupee at 1s 6d, which had cheapened imports by $12\frac{1}{2}$ per cent, did far greater damage. Purshotamdas to S.C. Dutta, 24 June 1927, *PT Papers*, fl. 40, pt. 3.

[54] See, for example, Purshotamdas in *LAD*, Vol. 1, pt. 2, 18 March 1929, p. 2066; and *LAD*, Vol. 1, pt. 2, 7 March 1930, p. 1386. The case of the flour mills industry was cited, in 1936, to show how the industry's exports dropped sharply from between 55,000 to 80,000 tons per year to 11,000 tons, mainly because its competitor Australia depreciated her currency by 25 per cent while India appreciated hers by $12\frac{1}{2}$ per cent rather than taken immediate relief measures. Mathuradas Vissanji, Indian Merchants' Chamber and Bureau, *LAD*, Vol. V, 18 April 1936, p. 4221.

The minority members of the Fiscal Commission, representing Indian capitalists, had generally maintained that India with "an abundant supply of raw materials, a plentiful supply of labour, adequate capital and a large home market" was ideally "suited" for "a policy of economic nationalism". With her natural advantages and the adoption of such a policy she could easily "attain a position of one of the foremost industrial nations in the world…".[55] They believed "that the industrial backwardness of India (was) in no way due to any inherent defect amongst the people of India but that it (was) artificially created by a continuous process of stifling, by means of a forced tariff policy, the inborn industrial genius of the people".[56] The "policy of free trade imposed upon India" at the insistence "of powerful… vested interests in England" kept "a country inhabited by one-fifth of the human race in a state of chronic poverty by making it almost entirely dependent on agriculture…".[57] It was further said that, "if a policy of protection had been adopted at least a generation ago, if the same freedom to regulate her fiscal policy had been conceeded to India as conceeded to the Self-Governing Dominions, India would have made by this time great progress in the direction of industrialisation" and "the economic history of India would have been differently written".[58]

The need of the hour now was, therefore, the minority report argued, an effort at "intense industrialisation" which was possible only through an "unqualified" policy of "full fledged protection" and the "whole-hearted co-operation of the State and of the people".[59] So keen were the capitalists to initiate rapid industrialization that they even agreed, against "the consensus of the India view", to allow the introduction of foreign capital, though under certain specified terms,[60] to facilitate this process.[61]

The capitalists, however, felt that the main recommendation of the Fiscal Commission regarding "discriminating protection" fell far short of creating the conditions for rapid all-round industrial development. "The main recommendation", it was said, was "hedged in by conditions and provisos which (were) calculated to impair its utility".[62] Particular objection was

[55] *Fisc. Com. Rep. 1922, Minute of Dissent*, p. 161; and Rahimtoola M. Chinoy, President, FICCI, *AR*, 1938, pp. 8–9.

[56] *Fisc. Com. Rep. 1922, Minute of Dissent*, p. 164. The "marvellous manner" in which Indian entrepreneurs entered the sugar industry in large numbers was often cited as an example to argue that there was no shortage of capital in India and that Indian capital was not "shy". If a reasonable return was guaranteed through protection then, it was said, Indian capitalists would not lag behind in rapidly developing any industry. See, for example, FICCI, *AR*, 1939, p. 49; A.L. Ojha, FICCI, *AR*, 1937, pp. 95ff.; Manu Subedar (Indian Merchants' Chamber and Bureau), *LAD*, Vol. III, 28 March 1938, p. 2297; and *LAD*, Vol. IV, 6 April 1939, p. 3482.

[57] *Fisc. Com. Rep., 1922 Minute of Dissent*, pp. 164, 193.

[58] *Ibid.*, pp. 163, 164.

[59] *Ibid.*, pp. 161; Also G.D. Birla, FICCI, *AR*, 1930; Resolution, FICCI, *AR*, 1939, p. 46.

[60] See Chapter 10; and *Fisc. Com. Rep. 1922, Minute of Dissent*, pp. 184–90.

[61] *Fisc. Com. Rep. 1922, Minute of Dissent*, pp. 193–94.

[62] *Fisc. Com. Rep. 1922, Minute of Dissent*, p. 160.

voiced to the Commission's view that the policy recommended by it would not be detrimental to British interests as "India *for many years to come is likely to concentrate on the simpler forms of manufactured goods,* and these are precisely those in which the United Kingdom has the smallest interest".[63] In their minute of dissent to the Commission's report the capitalists forcefully rejected any "such limitations in the path of India's industrial development". They argued that, "if in the process of (India) attaining her full stature, there is any risk to the immediate interests of the British manufactures, *that risk must be faced*". However, it was said that such a risk was "remote", though "not because India (was) likely to concentrate 'on the simpler forms of manufacture' but because, by an intense effort at industrialisation, she (would) grow rapidly prosperous", creating "increased demand for manufactured articles, both for those which she (could) manufacture herself and those which she must import" and thus putting "the trade relations between the two countries... on a sound economic basis, mutually beneficial to both."[64]

Over the years, as the results of the policy of "discriminating protection" began to become evident, the capitalists responded with a sharp critique. In 1930, FICCI President, G.D. Birla, asserted that even the halting recommendation of discriminating protection had not become a reality yet and in fact the policy pursued during the last few years had "been more in the nature of 'discriminating free trade' than of 'discriminating protection'".[65] Similarly, it was said in 1937: "Just as in the scheme of responsible government with safeguards, such safeguards eventually engulfed responsible government, in this policy [of discriminating protection] discrimination [was] more apparent than protection".[66] Interestingly, the Financial Secretary of the India Office also seemed to corroborate the capitalists' assessment fully when he said: "Provided that all the safeguards and qualifications... are rigidly insisted on, the adoption of a policy of protection with discrimination... is hardly more than a synonym for a policy of free trade with legitimate exceptions."[67]

The result of such a policy, the capitalists argued, was that while there was some industrial growth in particular areas there was no all round industrialization—no transformation of the overall economic structure.[68] It was pointed out that the existing industrial growth was very meagre

[63] *Fisc. Com. Rep. 1922*, p. 157, emphasis mine.

[64] *Fisc. Com. Rep. 1922, Minute of Dissent*, pp. 193–94, emphasis mine.

[65] Presidential Speech, FICCI, *AR*, 1930. Purshotamdas also commented on the "policy of discriminating protection which (was) administered... in the most conservative or stepmotherly manner... denying India protection, where other countries have protection under similar circumstances." *LAD*, Vol. 1, pt. 2, 18 March 1929, p. 2069.

[66] FICCI, *AR*, 1937, pp. 103ff.

[67] Quoted in Dewey, "The End of the Imperialism of Free Trade", p. 48.

[68] N.R. Sarkar, FICCI, *AR*, 1940, pp. 77ff.

when compared to other countries—India's industrial production per capita being only Rs 20 while the corresponding figures for Japan, UK and USA were 128, 428 and 720.[69]

The Indian capitalists were strongly critical of the various arguments put forward by the British to deny a policy of full-fledged protection to Indian industries. They had very early, in their minute of dissent to the 1922 Fiscal Commission, warned against the plea of safeguarding the interests of the *consumers* and the *masses* being used to "hedge the policy (of discriminating protection) in such a manner" as to render it toothless.[70] They would much rather that the interests of the consumers were left "in the hands of the non-official members of the Indian legislature" who had proven themselves in fighting for the interests of the Indian masses, than that they be handed over to the British, who tended to employ double standards on this question, "one for their own country and the other for countries under their political or economic control".[71] For example, it was pointed out how Britain had no hesitation in "following a very active policy of protective tariffs under the Safeguarding of Industries Act of 1921 whereby a number of items of import (were) subjected to prohibitive duties ranging from 30 per cent to 50 per cent" but when it came to applying the same policy to India the argument of "consumer interest" was "trott(ed) out" repeatedly.[72] Double standards were also said to be evident in the government's decisions regarding which Indian industry would receive protection and how much—the determining criterion being whether British interests were threatened or not. As Purshotamdas declared in the Legislative Assembly: "whilst an import duty of 100 per cent on sugar is not supposed to be injurious to the consumer, where it is a question of cotton textiles, anything more than 15 per cent is considered by the Governor General in Council to be so dangerous that it cannot be thought of. Sir, England does not export sugar, but England does export cotton textiles…".[73]

In any case, the economic viability of the argument that protection would necessarily harm the interests of the consumers and the masses was questioned by the capitalists. It was pointed out how in the cases of steel, sugar, cotton textiles and match industries protection had *benefitted* the consumers by an actual fall in prices, over the years, through internal competition.[74] Also, it was said, protection and the consequent import substitution and competition by indigenous manufacturers broke the monopoly

[69] FICCI, *AR*, 1937, p. 103.
[70] *Fisc. Com. Rep. 1922, Minute of Dissent*, p. 163.
[71] *Ibid*. and Padampat Singhania, FICCI, *AR*, 1936, pp. 10–13.
[72] *Ibid*.
[73] Purshotamdas, *LAD*, Vol. I, pt. II, 7 March 1936, p. 1389; and *LAD*, Vol. III, 17 September 1928, pp. 969–70.
[74] A.L. Ojha, FICCI, *AR*, 1937, p. 98.

of foreign companies, giving considerable relief to the consumers. For example, in the case of the match industry, protection led to the breaking of the monopoly of the Swedish manufacturers who sold matches in India at nearly double the prices at which the Indian manufacturer could sell his matches.[75]

Similarly, the argument that protective tariff duties would lead to a fall in government revenues (as the fall in imports would affect custom revenues) was said to be fallacious. It was argued that "under a protective tariff the Government's loss in customs revenue is amply made good by greater receipts in other directions", such as income tax, super tax, duty on machinery, chemicals, mill stores and raw materials imported by the protected industry, excise duties, railway freights, and "above all it is compensated by an improvement in the economic condition of the agriculturists reflect(ed) in receipts of land revenue and in a number of other directions in the revenues of the provincial Governments".[76]

In fact between 1921 and 1944, despite the policy of discriminating protection, custom revenues actually continued to rise rapidly, except during the war when custom revenues began to fall, but this fall was more than compensated by a dramatic rise in excise duties, income tax and corporation tax. In 1943–44, the revenues from central excise, income tax and corporation tax were *five times* that of customs![77]

The capitalists often drew attention to the fact that protection to one industry would set off development in several interdependent areas and would through this multiplier effect generate general economic development, bringing "immeasurable relief" not only to government revenues but to the "general public".[78] In this context they emphasized the close link and interdependence between the growth of agriculture and industry and dismissed the by now jaded British argument, which drawing from the theory of comparative advantage, stipulated that India being an agricultural country should concentrate on agricultural production and exports and should import its requirements of manufactured goods rather than trying to produce them indigenously. It was pointed out that not only were agricultural and industrial development not contradictory to each other, they were actually complementary, each deriving strength from the other.[79]

[75] G.D. Birla and Purshotamdas in *LAD*, Vol. III, 17 September 1928, pp. 967–70; and Padampat Singhania in FICCI, *AR*, 1936, pp. 10–13.

[76] Singhania in FICCI, *AR*, 1936, pp. 10–13; and A.L. Ojha, FICCI, *AR*, 1937, p. 98.

[77] See Table 6.2; and Subramanian and Homfray, *Recent Social and Economic Trends in India*, Table XX, p. 72.

[78] See, for example, FICCI, *AR*, 1936, pp. 10–13.

[79] See, for example, Rahimtoola Chinoy, FICCI, *AR*, 1938, pp. 8–10; and FICCI, *AR*, 1940, pp. 125–26; A.L. Ojha, FICCI, *AR*, 1937, pp. 95ff.; D.P. Khaitan, President, FICCI, *AR*, 1937, p. 6.

The examples of the cotton textile and sugar industries were often given to show how their growth after receiving protection generated all round economic development including that of agriculture. It was pointed out, for example, how these industries (including the ancilliary industries that they spawned) not only provided employment to those employed in factories but also to the millions of agriculturists engaged in producing raw cotton and sugarcane. The Indian cotton textile industry consumed nearly half the country's total cotton crop of about 2,276 million pounds. Among other advantages to the general economy the capitalists highlighted the fact that these industries, through import substitution, stopped the drain of millions of rupees from the country. Indigenous sugar production alone prevented a drain of about Rs 130 million as imports declined from 155 million to 21 million between 1929–30 and 1934–35.[80]

IIb. Conditions for Discriminating Protection

One of the major causes of discontent with the policy of discriminating protection was the vague and rigid conditions that were laid down by the Fiscal Commission, which had to be satisfied before any industry could be granted protection. The conditions in essence were: (*a*) The industry must be one possessing natural advantages such as an abundant supply of raw material, cheap power, a sufficient supply of labour, or a large home market. (*b*) The industry must be one which without the help of protection is either not likely to develop at all or not likely to develop so rapidly as is desirable in the interests of the country. (*c*) The industry must be one which will eventually be able to face world competition without protection.[81]

The capitalists raised strong objection to the first condition, regarding availability of raw material, home market, etc., being applied to deny protection to Indian industries.[82] The government's decision to refuse protection to the glass industry, despite the recommendation of the Tariff Board in 1932, on the ground that soda ash, a necessary raw material, was not available in the country, was repeatedly condemned. The capitalists pointed out that, while Indian industry was denied protection on such grounds, there were "innumerable instances" of countries where industries were

[80] See, for example, Khaitan, FICCI, *AR*, 1937, p. 6; and FICCI, *AR*, 1936, pp. 10–13.

[81] *Fisc. Com. Rep. 1922*, pp. 49–50.

[82] The capitalists' critique of the three conditions for discriminating protection in the following five paragraphs is based on the sources cited below except where indicated, Padampat Singhania, Presidential Speech, FICCI, *AR*, 1936, pp. 10–13; A.L. Ojha, FICCI, *AR*, 1937, pp. 95ff.; Resolution and Speeches on Fiscal Policy, FICCI, *AR*, 1939; N.R. Sarkar, FICCI, *AR*, 1940, pp. 79ff. John Mathai, "Indian Fiscal Policy", *Journal of Indian Merchants' Chamber* (English and Marathi), 1941, Note of Post War Economic Development Committee (this committee eventually drafted the 'Bombay Plan') on Tariff Policy, August 1943, *PT Papers*, fl. 291, pt. I; G.L. Mehta, FICCI, *AR*, 1946, pp. 118–28.

developed "without either the raw material produced within their borders or the home market available for their products". The government was reminded of "the examples of the United Kingdom and Japan dominating the world with their products of textile industry without a pound of cotton grown in their territory and the United States of America surpassing all countries in their rubber manufactures without an ounce of rubber tapped from an American tree".[83] Further, it was pointed out that often raw material production, availability of skilled labour and the size of the domestic market developed *only after* the industry itself began to grow and did not necessarily exist beforehand.[84] Therefore, making the existence of the former a precondition to permitting the growth of an industry through protection was like putting "the cart before the horse".

The second condition that the industry must be one which would not develop without protection—was dismissed as a mere "truism". It was argued that if an industry by making certain internal economies could develop without protection, then such an industry would in any case not require, nor would it be eligible for protection as the difference between the import price and the fair selling price of indigenous produce would approach zero.

As for the third condition—that the industry must eventually be able to face world competition without protection—it was said to be virtually impossible to apply. Apart from the unpredictable changes in internal costs, the fact that the international economic order was rapidly changing with the rise of economic nationalism and the recourse to dumping, exchange manipulation, subsidies, etc., made any reasonable prediction regarding the ability of an industry to do away with protection over a specified period of time virtually impossible. The variables were so many and so unpredictable that it was said that it would require "the assistance not only of almanacs and astrologers but of prophets" to adequately fulfil this condition.[85]

Moreover, it was said that the very criterion of measuring an industry's potential of facing international competition in deciding whether it should receive protection was wrong. It was more important to take into account the industry's importance in national economic development and in overall industrialization. In this context the most flexible policy of protection followed by Britain, the so-called "home of free trade", and the USA in the 1920s and 1930s—where the importance of the concerned industry in

[83] Padampat Singhania, President, FICCI, *AR*, 1936, p. 10.

[84] This was seen clearly in the case of the glass industry. During the Second World War, when this unprotected industry received some natural protection, it grew rapidly; a growth which was made possible by the indigenous production of soda ash increasing several times over this period. See Ray, *Industrialisation in India*, pp. 147–51.

[85] G.L. Mehta, FICCI, *AR*, 1946, p. 120.

terms of its capacity to generate employment, the usefulness of the goods produced, etc., were taken into account to protect it from "unfair" competition—was contrasted with the almost unique, rigid policy followed by the Indian government. It was pointed out that, if the conditions and the criteria laid down by the Indian Fiscal Commission were fully applied at Home, "then the one industry that should never have received protection was the Lancashire cotton industry (as) it had no raw materials of its own in England... no home market and it was not able to dispense with protection even up to the beginning of the last war (World War II)."[86]

The capitalists were also critical of the fact that under the policy of discriminating protection only existing industries could be considered for protection, leaving no scope for protection to potential or new industries[87] which could be crucial for all round industrialization and the development of the national economy. Many new industries, it was argued, could not be started as it was unreasonable to expect that an entrepreneur would launch a big industry "just on the off chance" that it could receive protection later. As a matter of fact, in actual practice, several efforts by Indian entrepreneurs to start important new industries like automobile, heavy chemicals, sewing machines and textiles machinery, suffered due to the application of this policy and the entrepreneurs had to make do, as far as possible, without government help or protection.[88]

Apart from the stringent conditions in the policy of discriminating protection, the very *procedure* followed by the government to consider a case for protection was said to be such that it largely nullified the meagre benefits of this policy.[89] The three-stage procedure that was adopted not only caused inordinate delays but also created wide opportunities for government prejudices to operate at each stage. The three stages were: (*a*) The Commerce Department would investigate if there was a *prima facie* case for referring the application for protection to the Tariff Board. (*b*) Investigation by the Tariff Board. (*c*) Consideration by the government of the Tariff Board's report.

The whole procedure, it was said, took on an average two to three years. This often led to the opportune moment being lost and in cases where

[86] *Ibid*.

[87] See *Fisc. Com. Rep. 1922*, p. 52.

[88] See Chapter 9 in this volume. Also see, for example, Ray, *Industrialisation in India*, pp. 172, 181–82, 195, 205.

[89] The capitalists' critique of the procedure followed discussed in this and the following two paragraphs is based on the sources cited below, except where indicated. Resolution and speeches on fiscal policy, FICCI, *AR*, 1928; *Fisc. Com. Rep. 1922, Min. of Dissent*, p. 162. FICCI, *AR*, 1937, pp. 98ff.; FICCI, *AR*, 1939, pp. 46ff.; FICCI, *AR*, 1940, pp. 79ff. Mathai, "Indian Fiscal Policy", Note of Post War Economic Development Committee, August 1943, *PT Papers*, fl. 291, pt. 1.

there was need for "urgent action" it could even "prove fatal" to the concerned industry.[90] In cases where the delay was much longer the situation naturally became much worse. The case of the glass industry was cited, where the Indian manufacturers first raised the question of protection in 1925, their plea was referred to the Tariff Board by the government in 1931 and the government took its decision on the Tariff Board's report only in 1935!

Apart from the delay, the fact that "the initiative for referring a case to the Tariff Board" lay with a bureaucratic (as opposed to popular) government, greatly prejudiced the chances of Indian industry receiving a fair deal. The government, it was said, "freely guillotined proposals" on the ground that no *prima facie* case for protection existed.[91] Further, if a proposal succeeded in crossing this first hurdle, the case for protection had to be investigated by a Tariff Board, which was an ad-hoc body and whose term, not to speak of the constitution and tenure of its members, was decided at the will of the government. The government also laid down the scope within which the Tariff Board was to function. Lastly, after the Tariff Board submitted its report, the Government once again intervened directly and, as in the case of the glass industry, it could refuse protection despite the unanimous recommendation of the Tariff Board.

IIc. Permanent Tariff Board

The manner in which Indian industry had to go with "begging bowls to the Commerce Department", which at its will could set up or revive a Tariff Board, the way in which "members were recruited to the Tariff Board in whom the public had no confidence" and who were often changed every three months or six months, and the arbitrary manner in which the government suppressed or repudiated the recommendations of the Tariff Board, led the Indian capitalists to demand a basic restructuring of the composition and constitution of the Tariff Boards.[92]

[90] See also Purshotamdas in *LAD*, Vol. 1, pt. II, 7 March 1930, pp. 1387ff., where he strongly accused the government of prevaricating over the Tariff Board's report regarding the chemical industry, while the industry was facing a desperate situation with many factories having to close down. He also highlighted the case of the cotton textile industry where the Tariff Board submitted a report recommending a 4 per cent increase in duty, but by the time the government made up their mind about the recommendation, taking about three years to do so, the situation worsened so much that even the government felt that 4 per cent was inadequate to enable the industry to face the onslaught of foreign competition.

[91] Purshotamdas, for example, cited a case where it was said that the commerce department would accept a *prima facie* case for protection only if the concerned industry showed losses for three to five years. It was not enough to show the capability to produce an imported item indigenously on the basis of protection, see, *LAD*, Vol. I, pt. 2, 18 March 1929, p. 2069.

[92] B. Das, *LAD*, Vol. VI, 1936, pp. 228–29; and Manu Subedar (Indian Merchants' Chamber and Bureau), *LAD*, Vol. IV, 6 April 1939, pp. 3483–84.

The Fiscal Commission (1922) itself had recommended that the Tariff Board "*must* be a *permanent* body of high standing", this being the only way of ensuring "consistent decisions and continuity of policy"—both factors of "primary importance".[93] However, this recommendation was not accepted by the government though the capitalists consistently continued to press for a permanent Tariff Board, virtually till independence.[94] The capitalists wanted the Tariff Board to be "like the Federal Court, a permanent body consisting of independent parties whose judgement (could) not be questioned" and whose advice "the Government of India could not lightly reject".[95] Rather than the "Commerce Department... being a supplicant before the Board of Trade in England" they hoped that the government "would refer to (the) Tariff Board more and more in order to establish a scientific tariff policy".[96] The capitalists in their minute of dissent to the Fiscal Commission (1922) had argued for two further provisions to ensure that the Board carried the "confidence of the country" and remained "above suspicion of any subservience to particular interests". First, that in any tariff enquiry "all possible interests should have every opportunity for representing their point of view, that a formal enquiry should be held in public and that the Government should publish the results of the enquiry promptly". Second, they suggested that the Board should consist of three members. The Chairman was to be a trained lawyer of the status of a High Court Judge. The two other members were to be *elected* by the *non-official* members of the Indian Legislature. The Board, if it felt the need, could also appoint "two assessors representing trade, commerce and industry by election by the leading chambers and Mercantile Associations in India".[97] Over the years the capitalists expressed strong dissatisfaction with the actual membership of the Tariff Boards and began to press for the appointment of only *Indian* members with a nationalist outlook.[98]

IId. Imperial Preference

One of the most controversial recommendations of the 1922 Fiscal Commission was the provision for Imperial Preference (i.e., differential tariff rates where British goods would pay a lower duty than other imports to India) in India's tariff structure. As we have seen above,[99] Britain, which

[93] *Fisc. Com. Rep. 1922*, p. 152, emphasis mine.

[94] See, for example, fn. 92; A.L. Ojha, FICCI, *AR*, 1937, p. 98ff.; Resolution, FICCI, *AR*, 1940, pp. 76–77. In 1946 the FICCI recommended "the setting up of a *permanent* Tariff Board with powers to undertake investigation *on its own initiative*...", Resolution, FICCI, *AR*, 1946, p. 118, emphasis mine.

[95] Manu Subedar, *LAD*, Vol. IV, 6 April 1939, pp. 3483–84.

[96] B. Das, *LAD*, Vol. VI, 1936, pp. 228–29.

[97] *Fisc. Com. Rep. 1922, Minute of Dissent*, pp. 191–92.

[98] See, for example, FICCI, *AR*, 1937, pp. 98ff.

[99] See Section Ia in this chapter.

was on the one hand faced with shrinking export markets and a balance of payments crisis and on the other hand was forced to increase India's custom duties to meet colonial revenue requirements, sought to partially salvage its exports through Imperial Preference within the empire. In fact the Fiscal Commission was set up with the intention of introducing the principle of Imperial Preference in India in a manner which would have a relatively greater chance of being accepted by Indian public opinion.[100]

Indian public opinion was however extremely sensitive to the question of the introduction of Imperial Preference in the Indian tariff structure. Resistance on this question had become one of the symbols of the overall political resistance to British rule in India. This was understandable given the long acrimonious history of tariffs in India being manipulated to suit British interests such as those of Lancashire. The issue of Imperial Preference (like the question of any economic arrangement or deal with British industrial interests, especially with Lancashire) could therefore never really be considered on purely its economic merits or demerits but invariably got tied up with the wider political situation and mood in the country. This overlap of the economic and the political planes was to be seen over and over again later, in the Indian responses to the various trade agreements between Britain and India, such as the Ottawa Agreement (1932), Modi-Lees Pact (1933) and the Indo-British Trade Agreement (1939). (See Chapters 7 and 8 in this volume.)

The Indian capitalist members in their minute of dissent to the 1922 Fiscal Commission made their position regarding Imperial Preference very clear, tying up from the beginning this question with the question of political independence.[101] They maintained that Imperial Preference could be fruitful only "amongst a Commonwealth of *Free Nations*". "The principle underlying Imperial Preference", the capitalists argued, was "that the country granting it (had) full power of initiating, granting, varying and withdrawing preference as it suit(ed) the interests of its own people". Great Britain and the Dominions could practise the policy of Imperial Preference on the basis of this principle "because they (were) politically and fiscally free", the Dominions having "conceded the principle of preference *after* they had attained full responsible government". But since India did not yet possess such powers and "Indian sentiment (was) practically unanimous against Imperial Preference in view of India's (existing) political status in the Empire, the conclusion (was)...inevitable" that "India must possess the same supreme powers as (were) enjoyed by the Dominions, before Imperial Preference (could) become for her a matter of practical politics". In other words, "India (could) not accept the principle of

[100] *Ibid*.

[101] The rest of the paragraph is based on this minute, *Fisc. Com. Rep. 1922, Minute of Dissent*, pp. 176–78, (emphasis mine).

Imperial Preference until she... attained responsible government and (was) able to regulate her fiscal policy by the vote of a wholly elected legislature".

The capitalists, however, also believed that Indian opinion could be "favourably inclined" towards the introduction of Imperial Preference even under India's existing political status, provided "conditions (were) created to place India at once on the same footing as the Self-Governing Dominions in this matter". This could be done if "the power of initiating, granting, varying and withdrawing Imperial Preference in regard to every article... was vest(ed) by legislation or other equally effective means in the *non-official members* of the Legislative Assembly". The non-official members, in other words, were to be able "to regulate the policy of Imperial Preference with perfect freedom on the same lines as those enjoyed by the Self-Governing Dominions".[102]

In the existing conditions, the capitalists argued later in 1928, the constant British effort to persuade India to follow the other Dominions in accepting Imperial Preference did not make any sense, because the conception and practice of Imperial Preference was very different in the latter. As an example, it was pointed out how in Australia's conception Imperial Preference meant, first, protection to its own home industries "against all comers" not excluding even Great Britain and then "a chance to British goods as against (the) non-British". In this conception, even after receiving preference, British goods had to pay duties of 160 to 200 per cent in certain items which competed with Australian indigenous manufactures. As against this, to talk of Imperial Preference in India, where the pitch of the import duties was a "paltry" 10 to 15 per cent, was said to be clearly "ridiculous".[103]

Anticipating an important element of the controversy over the Ottawa agreement, the capitalists in 1930 issued a firm warning to the government regarding the proposed Imperial Conference announced by the British Prime Minister, which was to inter alia consider the question of inter-imperial tariff preferences. The Committee of FICCI stated unequivocally that "until India (got) effective control of her fiscal policy, under no circumstances would she reconcile herself to the application of Imperial Preference of any nature so far as she (was) concerned". It was added that "any commitment made at any Conference until India (got) full freedom over her own affairs" would not only be "not binding on her" but was "liable to be repudiated" if India was not represented in the Conference "as a free country".[104]

[102] *Ibid.*, p. 178.

[103] FICCI, *AR*, 1928.

[104] Confidential Draft, FICCI to Secretary of State, Viceroy and Commerce Department, circulated to FICCI, Executive Committee, 26 August 1930, *WH Papers*, fl. 8, pt. II; and Ambalal Sarabhai to FICCI, 29 August 1930, *PT Papers*, fl. 42, pt. VIII.

Another major ground on which the capitalists opposed Imperial Preference, apart from the one that India's political subjugation was not to be used to "force" it to "prefer" the products of any country,[105] was that it adversely affected the consumer. The capitalists pointed out that the Fiscal Commission itself recognized that, "so long...as the supply from the favoured country is small relative to total supply, the consumer will suffer". This was because, "so long as a substantial quantity of the commodity continues to be imported from countries to which the preferential rate is not extended, the price of the commodity will be regulated by the higher duty. The consumer will thus pay the higher price on the whole supply, and the difference between the two rates of duty will be equivalent to a *bounty* to the manufacturer in the country receiving preference".[106]

When the Government of India, through the Steel Industry (Protection) Bill in 1927 and the Cotton Textile Industry (Protection) Bill in 1930, actually tried to introduce the principle of Imperial Preference in favour of British Steel and Textile manufacturers, G.D. Birla strongly opposed the move arguing inter alia that the Indian consumers were being asked to pay a higher price amounting to a bounty, to "protect the British manufacturers".[107] Similarly, G.L. Mehta argued later in 1937: "Imperial Preference means... that the Indian tax payer and the Indian consumer are paying for the inability of British manufacturers to compete in the Indian market with their foreign rivals on equal terms".[108]

The Fiscal Commission, however, had also argued that "when... the country receiving the preference supplies practically the whole market, then the price to the consumer will be regulated by the lower rate. The bounty to the foreign manufacturer will cease, and the *consumer will get the benefit of the lower rate*".[109] The capitalists strongly disputed the contention that "the consumer (would) cease to suffer" when practically the whole supply arrived from the preferred country. They argued that once "by means of preference the competitive foreign manufacturers [of the non-preferred countries] ...were excluded" and within the preferred country there was "(in)sufficient internal competition", (for example, through the formation of combines), then prices were not going to be regulated "on a competitive basis" but would be "maintained at a high level" and the consumer would "suffer heavily".[110] The case of the British monopoly in shipping was cited as an example of how the Indian consumer would suffer

[105] B.F. Madon, FICCI, *AR*, 1928.

[106] *Fisc. Com. Rep. 1922*, p. 115, emphasis mine; and G.D. Birla, *LAD*, Vol. 1, pt. 2, 25 March 1930, pp. 2422–23.

[107] *LAD*, Vol. 1, 14 February 1927; and *LAD*, Vol. 1, pt. 2, 25 March 1930, pp. 2422–23.

[108] FICCI, *AR*, 1937, p. 51.

[109] *Fisc. Com. Rep. 1922*, p. 115.

[110] *Fisc. Com. Rep. 1922, Minute of Dissent*, p. 179.

from high rates being charged once the "Indian market (became) the monopoly of the manufacturers of a preferred country".[111]

The capitalists were also not satisfied with the argument put forward by the Fiscal Commission that "the exporters of the country granting... preference" would get "some advantage in the market of the country receiving the preference", i.e., "if imports (were) attracted from a particular country, there (would) be a tendency for exports to be attracted to that country".[112] They felt that in view of the actual trade between India and England no such "advantage (would) accrue" and on the contrary there was "a danger that such a policy might penalise the Indian producer, by reducing the number of buyers, competition amongst whom maintains a standard of world prices for Indian produce".[113] Also, the argument that preference to UK led to India losing its markets in other foreign countries through retaliation by these countries was, as we shall see, to become a major plank of the capitalists' criticism of the various trade agreements with Britain which were to follow in the coming years and which involved granting preference to Britain. It was generally acknowledged that preference to British exports to India led to the serious risk of retaliation by major foreign buyers of Indian produce like Germany and Japan, who threatened to reduce their intake of Indian exports of commodities like pig iron, raw cotton, coffee and other foodstuffs and raw materials.[114]

Lastly, the capitalists made very clear their position regarding Imperial Preference to the British Dominions and colonies as distinct from that to England. The Fiscal Commission itself had made a distinction between the two. While the UK was to be "offered such preferences as India... (was) able to offer without *appreciable injury to herself*", the Dominions were to be offered preferences strictly on the basis of "reciprocity" and only such agreements were to be entered into which were to "the *mutual advantage* of both parties".[115] The capitalists however refused to support "agreements based even on reciprocity on trade matters" with any Dominion which had "on its statute book any anti-Asiatic legislation", and which "discriminate(d)" against the people of India, refusing to "treat them as equal members of the British Empire having equal rights of citizenship". It was said

[111] *Ibid.*, pp. 179–80.

[112] *Ibid.*, p. 180.

[113] *Ibid.*

[114] See, for example, Oswald Martin to Sir R.N. Mookerjee, 17 March 1930, *R.N. Mookerjee Papers*, IOR, London; Sir Thomas Ainscough, Simla to A. Edgumbe, Dept. of Overseas Trade, London, 10 and 13 July 1934, *L/E/9/1032*, IOR, London. In fact one of the major reasons why Lord Curzon's government in 1903 opposed Imperial Preference was "the danger to India of reprisals by foreign nationals", an eventuality which would affect India's export earnings which were necessary for meeting her remittance requirements. See Adarkar, *Indian Fiscal Policy*, pp. 520–21.

[115] *Fisc. Com. Rep. 1922*, p. 132, emphasis mine.

that "to the Indian people their self-respect (was) of far more importance than any economic advantage which any Dominion may choose to confer by means of preferential treatment".[116]

III. The Cotton Textile Industry (Protection) Bill, 1930

With the onset of the Great Depression and Britain facing shrinking export markets and the Government of India a revenue crisis, a policy of combining revenue and even protective duties with Imperial Preference for British goods, of bargaining for the latter while offering the former, began to be practised in India. This placed the Indian capitalists in a dilemma especially in areas where the condition of the concerned industries was such that it required immediate and urgent protection.

In March 1930, the Government of India introduced in the Central Legislative Assembly the Cotton Textile Industry (Protection) Bill, which, while offering a measure of protection to the Indian Textile industry, also sought to give preference to Lancashire. At that time the textile industry in India, particularly Bombay, was facing a severe depression.[117] The Bombay textile industry was still reeling under prolonged labour problems and was faced with a rapid erosion of its markets due to foreign, especially Japanese competition. In this situation, on the one hand the textile industry, especially of Bombay, badly needed protection against Japan and, on the other hand, the principle of Imperial Preference was not easily acceptable to Indians.[118] The capitalist class was placed on the horns of a dilemma and two distinct opinions emerged on this question.

G.D. Birla, carrying a large section, if not the bulk, of the capitalists with him basically put forward the argument that, though the fact that the Bombay textile industry was passing through a grave crisis could not be ignored and her case therefore needed to be treated "sympathetically", the proposed Bill still needed to be rejected "on the ground that the wider interest of the country demand(ed) that Imperial Preference could not be

[116] *Fisc. Com. Rep. 1922, Minute of Dissent*, pp. 182–83.

[117] In 1930 a FICCI resolution expressed deep concern at the depression in the cotton textile industry and demanded effective measures of protection to the industry to avoid "irreparable injury to the economic interest of India". Kasturbhai Lalbhai (Ahmedabad Millowners' Association), B.N. Chopra (U.P. Chamber of Commerce) and Hooseinbhoy Laljee (IMC) all emphasized the crisis in the textile industry all over India though they said Bombay, being a port and most vulnerable to Japanese competition, was particularly adversely affected. See FICCI, *AR*, 1930, pp. 155–62.

[118] The government, recognizing the strong feeling against Imperial Preference, had argued that it did not at this stage seek to get the Assembly to commit themselves to the *principle* of Imperial Preference but only wanted them to regard the proposal as "a special measure, designed to meet the immediate emergency". *LAD*, Vol. 1, pt. II, 13 March 1930, pp. 1754–59. This distinction however did not satisfy the critics, as we will see later.

accepted".[119] He pointed out that, while the Bill did provide "a small protection to the Indian industry", it also provided "protection to Lancashire, in order that she may wrest her lost territory from Japan" which she had "lost in the last two or three years". He argued how this protection of about 5 per cent to Lancashire, through a preference in duty, would cost the Indian consumer "between $1\frac{1}{2}$ to 2 crores [15 to 20 million] of rupees per annum".[120] Also, he pointed out how Indian demands "for protection for the last three years" were ignored and even a Tariff Board recommendation for granting protection was "rejected" but now, "taking advantage of the plight... of the cotton industry" the government "with pistol in hand" was saying that either the industry "must accept both protection and Imperial Preference", or reject Imperial Preference and "go to the dogs". He declared: "it is most humiliating that this protection has been mixed up with a policy of preference", and added, "if we have got any self-respect left in us, we should reject it and tell Government that we are not prepared to accept their proposal".[121]

H.P. Mody, representing the Bombay Millowners' Association, on the other hand, put up a case for accepting the government's proposals. He pointed out how the proposals would give an industry of national importance—the Bombay cotton industry—which was facing a severe crisis,[122] "some breathing time" and would "arrest the decline in its fortunes". He argued that the proposal be looked at as "a strict matter of business" and from the point of view of "reciprocity of benefits" and not of "sentiment". Acknowledging the sentiment against the principle of Imperial Preference, he reiterated the government plea that "the present proposals... be regarded not as an acceptance of the principle of Imperial Preference... but merely as in the nature of emergency measures" to meet the grave situation of the industry. In any case, he pointed out that the proposal was only for three years, and asserted: "If, in the course of the three years, it is found that the five per cent differential duty has enabled Lancashire to penetrate our markets, displacing Japan, and that we find ourselves in much the same position as we are in, *vis-à-vis* Japan, then... I have not the slightest doubt that the Government of India will no longer be able to maintain at that stage that we should not be adequately and equally *protected against Lancashire* as well".[123]

[119] *LAD*, Vol. I, pt. II, 25 March 1930, p. 2417.

[120] *Ibid.*, pp. 2422–25.

[121] *Ibid.*, p. 2425.

[122] Mody pointed out how in the preceding five years Japanese textile imports into India increased from 217 million yards to 550 million yards, an increase of over 100 per cent. Over this period the Bombay textile industry lost over 100 million of rupees. The income tax and super tax collections from the industry fell drastically. Ten mills went into liquidation, nine mills reduced their capital from about 75 million to about 28 million. *LAD*, Vol. I, pt. 1, 13 March 1930, pp. 1755–56, 1760.

[123] H.P. Mody's views in the above para are from, *LAD*, Vol. I, pt. 2, 13 March 1930, pp. 1754–63.

Even Purshotamdas Thakurdas, who rarely voted with the government in the Assembly, felt compelled to support the government proposal under pressure of his constituency in Bombay.[124] Reiterating the serious condition of the textile industry, where not only Bombay but 75 per cent of the textile mills in India felt that "it would be dangerous to expose the industry to further onslaught and competition from abroad", he urged that "the economic aspect of the problem" not be "subordinate(d) to what may be the political aspect of it", and the Bill be passed. He too, like Mody, made weak attempts to separate the proposals from the question of Imperial Preference, arguing that the proposals could not be called Imperial Preference because "Imperial Preference can come only *after* adequate protection is assured" which admittedly was not assured in India; or because "India (was) not independent enough" and did not possess the powers to meet the basic requirement of Imperial Preference that it be offered "voluntarily" and that it could be varied or withdrawn to suit the country's own interests. The Bill, Purshotamdas argued, was an "emergency measure, designed to give immediate relief". It did so by providing protection to Indian industry but it also "simultaneously afforded protection to UK industry".[125] Clearly, he was attempting to secure immediate relief to the textile industry without conceding the *principle* of Imperial Preference.

Purshotamdas was however very apologetic about supporting the Bill. He conceded that the "protection" to Lancashire would affect the Indian consumer but still felt that the Bill needed to be supported "to save the Indian Textile industry" in which "about 100 crores [1,000 million] of capital (was) invested". Of course, he maintained (in agreement with the position of his chamber, the IMC), "if there was any guarantee that adequate protection would be forthcoming immediately without any element of what is called Imperial Preference", there would be no hesitation in accepting it "in preference to the proposal put forward by Government". But the "Government has made it abundantly clear that there is no option to this House, unless it wishes to wreck this Bill...". In the existing circumstances there was no "alternative" to accepting the government proposals but to "see this national industry, in which all parts of India (were) interested, wiped out of existence, which would be a calamity not to Bombay alone but to the whole country".

There was, however, "no pleasure" for Purshotamdas in supporting the Bill and being forced into "voting in a different lobby". He said he would not be surprised if the "feeling... uppermost in the minds of Indians who

[124] Purshotamdas represented the Indian Merchants' Chamber (IMC), Bombay, in the Assembly. The Independent Party, of which Jinnah was the leader and Purshotamdas the deputy leader, supported the Bill in the Assembly.

[125] Purshotamdas's views in this and the next para are from *LAD*, Vol. I, pt. 2, 26 March 1930, pp. 2463–77; and 31 March 1930, pp. 2702-6.

vote for this Bill" was a "feeling of humiliation" at being "the victims of the circumstances in which the country and the constitution of the country" placed them. There was in fact "a touch of morbid humour for some and humiliation for others", he said, "when a part of the country is actively pleading for independence and for boycott of foreign cloth, we in the Legislature are being asked to give protection to a British industry".[126]

G.D. Birla was, however, not convinced with the arguments of Mody and Purshotamdas in favour of the Bill, though he recognized that Bombay was in a "difficult position", where, "while they want(ed) protection for their own industry, if they reject(ed)" the government proposal "they (would) have to go without protection for some time". He believed the latter would be the better option in the long run and argued: "if they would have the patience and courage to say to the Government definitely without any ambiguity that if we want protection we want unalloyed protection, we will not consent to pay a huge sum out of the pocket of the Indian consumer for benefitting Lancashire, if they had the courage to say this, I am sure that, in the course of a short time, *the Government would have to bend and give us protection*, adequate and unalloyed, *without any tinge of Imperial Preference*".[127]

Birla further argued that the millowners, "by accepting this proposal" of the government, were "doing the greatest disservice to themselves". They were doing so first, by "alienating sympathy of the (Indian) people" who were already getting "hostile to the Bombay mill industry". They were also making another mistake. He pointed out how the government had refused protection a few years earlier, in 1927, when the "imports from Japan were not large". But now they were offering protection because Lancashire's share of the Indian market had been reduced and therefore protection did not harm them as much as it would have earlier. Given this context, Birla argued:[128]

> if they (the millowners who supported the Bill) help Lancashire in wresting the lost territory from Japan, and if, after two years, it is found that cent per cent trade is captured by Lancashire, they may take it from me that, if they want any protection in future, they will be knocking their heads against a wall of stone. It is impossible for any Government, until we get responsible government, to fight against the Lancashire interests....

[126] *LAD*, Vol. I, pt. 2, 26 March 1930, p. 1474. G.D. Birla was very unhappy at not being able to carry his fellow campaigner, Purshotamdas, with him on the question of this Bill. He had however sensed Purshotamdas's predicament when he said, "his head as well as his heart is with me though not his vote". *LAD*, Vol. I, pt. 2, 25 March 1930, p. 2417.

[127] *LAD*, Vol. I, pt. 2, 25 March 1930, p. 2422, emphasis mine.

[128] *Ibid.*, p. 2426. Birla was here clearly refuting Mody's argument that if Lancashire displaced Japan and became the major threat to India's industry, it would be possible to get the government to grant protection against Lancashire.

He added that, though the millowners had "lost their nerves" and were "inviting death for themselves", it was the duty of the House to prevent harm to them and to the country by opposing the Bill.[129]

G.D. Birla was to ultimately resign from the Legislative Assembly, along with Pt. Madan Mohan Malaviya and others, in protest against the introduction of Imperial Preference through legislation based on this Bill.

[129] *Ibid.*

SEVEN

Tariffs, Trade and Industry II: 1932–36

I. Introduction

We have seen, in Chapter 6, the impact of the Depression on the Government of India in the form of a revenue crisis and on British exports, which, faced with growing world-wide protectionism and international competition, continued to shrink rapidly. We also saw how custom duties combined with Imperial Preference were aimed at partially resolving this problem.

The Depression, however, affected British interests in another critical way—an aspect which is crucial in understanding the various trade agreements between 1932 and 1939. To be able to meet her sterling obligations as well as to enable the conversion of the revenue set aside by the Government of India as home charges into remittance, India had to and did consistently maintain an export surplus or a positive balance of trade with the rest of the world. With the onset of the Depression, however, India's export surplus began to dwindle rapidly. The British financial interest of securing remittance from India was at jeopardy and the risk of default by empire countries in meeting their sterling obligations threatened the stability and standing of the sterling. Initially, in the early 1930s, the problem was partially resolved through massive exports of gold from India—but this could not be a long-term solution. The option of devaluing the rupee to push Indian exports was also not acceptable to the home government, despite strong demands in that direction made in India.[1]

It is in these circumstances that Britain went in for the Ottawa Agreement, the Modi-Lees Pact and the Indo-British Trade Agreements of 1935 and 1939.[2] Through these agreements Britain tried to meet both its

[1] For a discussion of the impact of the Depression on India's balance of payments and the controversy over the monetary policy followed in this period, see Chapter 4 in this volume.

[2] For an excellent discussion of the circumstances leading to these trade agreements, see Chatterjee, "Lancashire Cotton Trade", Chapter VI.

industrial and financial interests, i.e., it tried to maintain the exports of British goods using Imperial Preference, and to maintain remittance to Britain by helping the empire countries to generate a balance of trade surplus. To ensure that India maintained an export surplus in a situation where world trade was depressed, Britain had to increasingly import more of Indian goods. Also, with the trend being towards increasing bilateralism in international trade, where the amount of exports to a country got linked with the quantity imported from it, Britain had to increase its imports from India if it was to try and increase its exports to India.

Partially as a result of this changed British stance, reflected in the trade agreements, the balance of trade between India and UK underwent a basic shift. The British share in India's exports began to rise consistently while the decline in the British share of India's imports could not be contained. This led to the reversal of the existing pattern where India used to have an import surplus with Britain and an export surplus with non-empire countries. There emerged a bilateral balance in trade with Britain, and by late 1930s India had an *export surplus* with Britain, while her surplus with other countries declined; and with some countries she even went into a deficit.[3]

The connection through these trade agreements with Britain, "the least unstable of all the advanced economies" during the Depression[4] and also the least given to exchange fluctuations, proved to be of some advantage to India (though there were several negative fallouts as well). India's exports and thus the income levels within the country got maintained during the Depression, providing some relief to Indian industry. Looking back at it after so many years, even radical economic historians have tended to agree that, while Britain undoubtedly benefitted from these agreements, India did not appear to lose all the way either.[5] The gains to India have, however, been grossly exaggerated by imperialist historians like Ian Drummond who put the nationalist argument on its head and suggested that it was India which was exploiting Britain through these agreements[6]—a claim which even colonial officials would scarcely dare make.

[3] See Varshney, "Foreign Trade" pp. 448, 459–60.

[4] Bagchi, *Private Investment*, p. 88.

[5] *Ibid.*, pp. 88–91; and Chatterjee, "Lancashire Cotton Trade", Chs. VI and VII. Interestingly, as we will see later, the positive economic aspects of the trade agreements (for India) accepted by radical scholars today are what the "conservative" capitalists like H.P. Mody were arguing for in the 1930s, against severe criticism from the "radical" capitalists and the nationalist political workers.

[6] For example, regarding the Ottawa Agreement, Drummond argues: "If we did not know that India was a British possession at the time, we should probably say that the clever and powerful Indians had forced a disadvantageous trade treaty upon the weak and inept English". Further, he says: "The 'Cotton Clause' makes the 1939 agreement look rather like a 'capitulation'—the sort of thing which Marxists tell us the evil imperialist Western governments force on the weak and helpless countries of the Third World. But in this case, as at Ottawa... it was Britain who had capitulated, sacrificing most of her preferential advantages to win a

Understandably, at the time when these agreements were debated and passed the air was full of bitter contention. Within the Indian capitalist class too there emerged sharp differences of opinion—somewhat like the differences that emerged during the 1930 Cotton Textile Protection Bill over the question of combining protection with Imperial Preference, which we discussed in Chapter 6. It is however necessary here to recognize the specific nature of these differences. Sometimes they emerged when a section of the class under immediate economic compulsions accepted certain provisions which were rejected by others. Such acceptance, as H.P. Mody put it, did not amount to "running away from the fight" but was in the nature of "a strategic retreat with all... weapons of offence and defence intact".[7] At other times the difference was over whether an adequate economic and political bargain had been struck in going in for an agreement. There were yet other situations where almost everyone was agreed that an adequate economic bargain had been struck in the existing circumstances but one section still rejected agreement because the leadership of the national movement did so for purely political reasons.

What needs emphasis is that these differences generally did not reflect basic differences in attitude towards imperialism. They could not be counterposed as loyalist or comprador versus nationalist or anti-imperialist. Even people like H.P. Mody (leave alone Purshotamdas), who often found themselves on the "compromising" side, were not necessarily "selling out to imperialism" when they argued for certain agreements against popular opinion in general as well as within the capitalist class. At best one can surmise that Mody was less sensitive to the demands of the political struggle against imperialism compared to the dominant wing within the capitalist class and that he often disagreed with the *method* of pursuing the struggle for self-government, he himself tending towards liberal constitutionalism. Mody, however, in his own wont continued to try to protect national economic interests and certainly at no point could be accused of pushing British economic interests.

The British, who were aware of the differences within the capitalist class and tried to exploit it fully, were to soon discover this. Delighted at getting Shanmukhan Chetty, who was till then closely identified with FICCI, to break out and help greatly in pushing through the Ottawa Agreement despite being "bitterly attacked (by) the Congress and liberal press", the government hoped to push this "sign... of a cleavage in the commercial

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doubtful benefit for her cotton trade and a most uncertain 'goodwill'. The reader is left to ask himself who was exploiting whom". Drummond, *British Economic Policy and the Empire*, pp. 132, 140.

[7] Mody's reasonable logic was: "better to be a coward for five minutes than to be a dead man all your life". That is, better to go for a short-term retreat and accept concessions necessary for the very survival of an industry than to go on fighting and let the industry be destroyed. *LAD*, Vols VII and VIII, 27 August 1934, p. 2114.

ranks" to a "real split" within FICCI, thus detaching an important section of the class towards cooperation.[8] However, this was not to be. Chetty left FICCI but was unable to carry any section of it with him. Similarly, Mody's supporting the government on specific issues did not alter the overall FICCI stance, nor did it prevent him from severely criticizing the government and voting against it on critical occasions[9]—so much so that the Finance Member Grigg was to wonder whether the relationship between Govind Ballabh Pant (the leader of the Congress in the Legislative Assembly) and H.P. Mody represented "an unhallowed combination to lead me up the garden, an alliance of Congress and Big Business…".[10]

II. Ottawa Agreement, 1932

The Imperial Economic Conference was held at Ottawa in 1932. The British home government approached the Ottawa talks with some trepidation and anxiety for its success. There was, on the one hand, the mounting pressure of the "Lancashire Members, …a very formidable force (in)… the House of Commons", to "obtain some result at Ottawa, that (would) improve British and Indian trade relations".[11] Also, an agreement was critical to get the conservatives in Parliament to cooperate in the ongoing constitutional negotiations with India.[12]

There was, on the other hand, the awareness that it would be difficult and inadvisable to force through an agreement in a high-handed manner riding roughshod over Indian opinion. There was little possibility, for example, of threatening injury to induce India to modify her attitude regarding Imperial Preference, as it was admitted that Britain had more to lose if India withdrew preferences than if Britain did: "The withdrawal of the existing preferences on UK steel and cotton goods would be a more

[8] Schuster, Finance Member to the Secretary of State, 12 December 1932, *L/PO*/270, IOR, London.

[9] For example, Mody voted against the government when the Indo-British Trade Agreement was brought before the assembly in 1939. He also resigned from the Viceroy's Executive Council in 1943 on the British government's refusal to release Gandhi during his fast. For an example of how Mody while distancing himself from the "extreme" political stand of the Congress simultaneously made a scathing criticism of British policy aimed at thwarting the just economic and political demands of the Indian nation, see, FICCI, *AR*, 1930, pp. 150–53.

[10] *LAD*, Vol. IV, 19 March 1936, p. 2874.

[11] Samuel Hoare to Willingdon, 19 February 1932, *L/PO*/271B, IOR, London.

[12] As the Secretary of State was to write to the Viceroy before the Ottawa Agreement was ratified by the Assembly that not only the conservatives but "many people who are not so conservative would seriously ask themselves the question as to whether a self-governing India was likely to remain in the British empire if Indian politicians refused to accept an Imperial Agreement mutually beneficial to India and Great Britain", 11 October 1932, *L/PO*/270, IOR, London.

than sufficient answer to the withdrawal of any preference at this end".[13] Equally important, the political temperature in the country would make any such rash move highly risky. In fact the feeling was that the Ottawa Agreement should be such that it would help stem the ongoing civil disobedience movement by conciliating the "commercial community in general", who were seen as the "most important" if not "the decisive factor" behind this movement as well as that of 1930.[14] Schuster, the Finance Member, even argued (though unsuccessfully) for the question of currency policy being included in the agenda of the Ottawa conference, that being one of the chief grievances of the Indian capitalists, apart from their grievance regarding the policy toward protection in general and cotton duties in particular.[15]

Therefore, from the very beginning the attempt was to include in the Ottawa delegation representative Indian businessmen who would carry weight not only within the commercial community but also "with the politicians". With this in view Samuel Hoare, the Secretary of State, repeatedly urged Willingdon, the Viceroy, to include in the Indian delegation a FICCI leader like G.D. Birla or at least Purshotamdas Thakurdas who would not only be "in a position to make it (the tariff agreement at Ottawa) or mar it when it (came) under discussion" in the Indian Legislative Assembly but whose "cooperation in that field might serve as a bridge to cooperation elsewhere", i.e., at the constitutional discussions going on in the Round Table Conference (RTC).[16]

The Government of India, however, did not agree with this reasoning and refused to have any truck with Birla or Purshotamdas in the Ottawa negotiations. The Viceroy, while accepting that inclusion of non-official members was a must to make the agreement acceptable to the Legislature, argued that it was not possible to include FICCI representatives like Birla

[13] Jeoffrey Corbett to Lord Peel, 21 March 1932, *L/PO/*270, IOR, London.

[14] Willingdon to Hoare, 14 March 1932, attaching a note prepared by Schuster, *L/PO/*271, IOR, London.

[15] *Ibid.*

[16] Secretary of State to Viceroy, 5 and 22 March 1932, *L/PO/*271, IOR; Secretary of State to Viceroy, 19 February 1932 and 8 April 1932, *L/PO/*271B, IOR, London. G.D. Birla had been bargaining with the Secretary of State. In return for cooperation from the government reflected in proper FICCI representation at Ottawa and the appointment of a suitable committee with adequate Indian and British business representation to look into the question of financial safeguards, Birla offered FICCI's willingness to attend the Consultative Committee of the Round Table Conference which was to discuss commercial and financial safeguards, issues which where proving to be major obstacles to any constitutional settlement. (Along with Gandhi's withdrawal from the RTC, FICCI had refused to participate in it, see Chapter 2 in this volume.) Birla also implied that he had some influence within the Congress through Gandhi and that there was some chance that the latter could be induced to cooperate if the government changed its attitude. G.D. Birla to Samuel Hoare, 14 and 28 March 1932, *L/PO/* 271B, IOR, London.

as there was "little if any chance at present that members of that school of thought would approach the question in broad minded spirit". Further, he argued, FICCI had refused to take part in the constitutional discussions and its "leading members...(were) undoubtedly taking active part in boycott of British trade.... Inclusion in an official delegation of any of its leading members would create very bad impression among Government supporters and cannot be contemplated".[17]

The delegation eventually chosen with the approval of the Secretary of State did not include Birla or Purshotamdas or anyone acceptable to FICCI, but consisted of members who were, presumably, more likely to be "broad minded", enough to remain within parameters set by the government.[18] However, even such a delegation was not allowed to "enter into an agreement even provisionally, without the previous approval of the Government of India". Further, the briefs which were to guide the action of the delegation during the Conference were to be submitted to the Secretary of State who retained the right to give his own instructions.[19] The grip of Whitehall was to remain as firm as ever—the lip service to the Fiscal Autonomy Convention notwithstanding.

The Indian capitalists reacted very sharply to the selection of the delegates to Ottawa, the scope of the negotiations, the manner in which the agreement was ratified as well as to the agreement itself.

In a communication to the Secretary of State, FICCI regretted that "the personnel of the Delegation from India (were) not nominated in consultation with the predominant commercial and industrial interests in the country as represented by the Federation (FICCI)", and added that "the Members of the Delegation being the nominees of Government" would be unable to "express their independent view", but would mainly act "under the instruction issued by the Government of India".[20] It was the strong attack on the personnel of the delegation which led to Shanmukhan Chetty's resignation from FICCI in protest.[21]

Further, the capitalists wanted that any "agreement arrived at the (Ottawa) Conference (was to) be binding on the Government" only if it was "ratified by the future legislature of the country", i.e., by "the new

[17] Viceroy to Secretary of State, 17 and 25 March 1932, *L/PO*/271, IOR, London.

[18] The Indian delegation was led by Sir Atul Chatterjee, former Higher Commissioner for India in London; the other members were R.K. Shanmukhan Chetty, Padamji Ginwala, Seth Haji Abdoola Haroon (a major importer from Karachi), Sahibzada Abdussamad Khan (Chief Minister of Rampur State—a "Muslim" connected with the "princes" was thought to be a dual asset by the government), Sir George Rainy (retiring commerce member), *L/PO*/270–71, IOR, London. Sir Harry Strakosch and Sir George Schuster were added subsequently to deal with the monetary questions.

[19] Secretary of State to Viceroy, 17 June 1932 and K/W, *L/PO*/271, IOR, London.

[20] FICCI, *Proc. of EC*, 1932, pp. 11–14.

[21] See Purshotamdas to G.D. Birla, 2 November 1932, *PT Papers*, fl. 121. Also see, Chetty in *LAD*, Vol. VI, 9 November 1932, pp. 1904–5.

Assembly under the new Constitution".[22] Also, they were apprehensive that the procedure adopted by the government would disregard the minimum condition laid down by the Minority report of the 1922 Fiscal Commission, that voting on trade agreements be confined to elected members of the Assembly, and that the government would instead ratify the Agreement with the support of official and nominated members.[23] H.P. Mody argued in the Assembly that "at least a Committee of this House", if not coopted members from outside, be given "an opportunity to examine the Agreement". In England, where "a National Government is in power" and the "Parliament represents the will of the nation", a legislation might be pushed through in no time. But here, he argued, "this position does not exist" and, therefore, the government should not "force this Agreement down the throat of India" using the "technical right" derived from their majority votes in the same manner as they used these votes for "ramming the ratio down our throats".[24]

The government, however, had different ideas. And as Walchand Hirachand, president of FICCI, put it, "the country had the misfortune to witness the tragic farce of the Legislative Assembly ratifying the Ottawa pact in spite of the unanimous verdict against it from all economists and representatives of the Indian commercial interests in the country". Using the "solid Government block in the Assembly and (the) immeasurable amount of patronage, at their disposal, the administrators", Walchand argued, were able to legalize any such action despite "countrywide opposition" against it—as for example the "legalisation of the ordinances that were temporarily issued last year by the Viceroy for the suppression of the surging tide of nationalism created by Congress in the country".[25] It was for this reason that FICCI was to declare that, "until India got effective control over her fiscal policy, no commitment would be binding on her which would restrict her freedom to develop her indigenous industries in future".[26]

As for the Agreement itself, which was believed to be "harmful and disadvantageous to India", the Executive Committee of FICCI argued that it betrayed the anxiety of the British government "to seek protection for their industries in the preserved markets of the Empire behind preferential tariffs as their industries could not face the severe competition from their rivals" such as the USA and Japan.[27] Unable to face world competition, the attempt was to "create a sterling area for tariff purposes" where "Britain

[22] See FICCI, *Proc. of EC*, 12 March 1932, p. 11; G.D. Birla to Samuel Hoare, 14 March 1932, *L/PO/*271B, IOR, London; and Purshotamdas's interview, 22 August 1932, *PT Papers*, fl. 126.

[23] *Ibid.*

[24] H.P. Mody, *LAD*, Vol. VI, 10 November 1932, p. 1952.

[25] Walchand Hirachand, FICCI, *AR*, 1933, pp. 6–8.

[26] FICCI, *Proc. of EC*, 9 April 1932, pp. 11–14.

[27] FICCI, *Proc. of EC*, 21 September 1932 and 22 October 1932, pp. 11–14.

would secure an extra advantage of 10 per cent by way of tariff preference over the manufactures of non-empire countries".[28]

Second, the Indian capitalists were aware that one major issue which was to be attended to at Ottawa was the question of maintaining India's exports. On this depended not only Indian agriculturists' incomes and consequently demand for Indian industrial goods, but also India's ability to meet her "heavy annual sterling obligations", that is, the "remittances or drain".[29] The Minority Report of the Committee appointed by the Legislative Assembly to examine the working of the Ottawa Agreement reiterated the position of the capitalists quite succintly: "It is an indisputable fact that not only is it in the vital interest of India that her export trade with foreign countries must not suffer, but it is also in the interest of United Kingdom that India must have an adequate balance of trade to meet her heavy obligations to Britain".[30] The capitalists, however, did not agree, as we shall see, that the Agreement at Ottawa served best the objective of pushing India's exports.[31]

The Indian capitalists' major critique of the Ottawa Agreement, which was signed on 20 August 1932, was related to the manner in which the above two objectives were sought to be achieved and the repercussions of this attempt on Indian economic interests. Also, while "assessing the value of the (Ottawa) scheme" the FICCI executive committee clearly stated that they "tried to understand the effects of the scheme entirely from the point of commercial and industrial interests of the country" and "refrained" from evaluating it "on political grounds", since they had "no hesitation in concluding that such a scheme would not work in the fullest interests of India unless and until the Government of the country came into their own and their interests were identical with those of the general public".[32]

First, the capitalists argued that the preference given to British exports to India would "affect a number of small industries that were created behind the revenue import tariff in India, as they would be faced with competition at the hands of British manufacturers".[33] H.P. Mody expanded

[28] Walchand Hirachand, FICCI, *AR*, 1933, pp. 6–8. Purshotamdas had rather astutely predicted from beforehand that Britain was likely to extract benefit from Ottawa only from India—i.e., not from the rest of the empire. Drummond's study confirms that Britain was unable to get much out of the Dominions from Ottawa. See Purshotamdas to G.D. Birla, 25 June 1932, *PT Papers*, fl. 107, pt. 2 and Drummond, *British Economic Policy*.

[29] N.R. Sarkar, President FICCI, *AR*, 1934, pp. 45–46; D.P. Khaitan, FICCI, *AR*, 1936; and G.L. Mehta, FICCI, *AR*, 1937, pp. 48–49.

[30] Report of the Committee..., Simla, 1934, *L/E/9/*1122, IOR, London. As G.L. Mehta put it later, "it is... not only in India's interests but in Great Britain's interests as well that India should have a large favourable balance of trade with other countries". FICCI, *AR*, 1937, p. 48.

[31] See, for example, fn. 29.

[32] FICCI, *Proc. of EC*, 1934, p. 26.

[33] FICCI, *Proc. of EC*, 1932, pp. 13–14.

on this theme of the impact of preference to Great Britain. He said the 1922 Fiscal Commission had recommended that preferences "be confined to... a few commodities and (not) take the form of a general preferential tariff" and that the "commodities selected must be as far as possible those in which British manufacturers already held an important part of the market" so that the "burden on the consumer, if any" could be removed quickly.[34] However, Mody pointed out, "the extraordinary range of preference given" to Britain in the Agreement were such as to virtually become "a *general measure of preference*". This, he added, was likely to threaten not so much the big industries[35] but "a great many small industries" that had sprung up "in the last year or two" such as cement, paint, aluminium circles and sheets, porcelain, electric lighting accessories, safes, strong boxes, boots and shoes. Besides, in respect of *most of the articles* on which India gave preference "the trade of Great Britain (was) so very small that to give preferences to Great Britain by raising the duty on the foreign article would be to raise the price to the consumer on all those articles...". Further, Mody clarified that Great Britain could get a preference "either by reduction of the duties against her products" or by "raising of the duties... against foreign products.... In the one case there will be a loss of revenue, and in the other case a burden on the consumer." Hence Mody's warning that the Agreement be examined most carefully.[36]

Second, the capitalists were dissatisfied with the preferences received by Indian exports under the Ottawa agreement. These preferences, they argued, did not provide any meaningful advantage to India because they were largely given for commodities which were either Indian monopolies anyway, such as tea and coffee.[37] *The Leader*, basing itself on G.D. Birla's analysis, pointed out that if tea (which accounted for nearly *half* the total value of Indian exports on which preferences were received and the production of which was 90 per cent controlled, financed and managed by non-Indians) and other products like jute and hides and skins (where India's position was so strong as to make any preference virtually meaningless) were excluded, then it was clear that India would get benefit from only about 25 per cent of the total value of preferences received by her exports. If preference was given to Indian raw cotton then, it was said, it would have "distinctly benefited" India but "England... stubbornly resisted

[34] See Chapter 6 for the Indian capitalists' critique of the Fiscal Commission's view that the consumer would not suffer and may even benefit from preference if the country receiving preference supplied the bulk of the market.

[35] Ottawa did not deal with Cotton Textiles or Iron and Steel, however, Britain had already secured preference in these areas *before* Ottawa. India Office note for the Secretary of State on Ottawa Agreement, *L/E/9/1115*, IOR, London.

[36] *LAD*, Vol. VI, 10 November 1932, pp. 1950–51.

[37] See, for example, Walchand Hirachand to Sanmukhan Chetty, 6 August 1932, *WH Papers*, fl. 4, pt. 1.

any attempt to put cotton on the preference list and... thus achieved a great triumph over India".[38]

H.P. Mody built up a strong and detailed case on similar lines in the Legislative Assembly evaluating the nature of preferences *received* by India.[39] Taking up the six commodities in Schedule A and B in which fresh preferences were given, he pointed out that either the Indian exports of these commodities to Britain were too small, often negligible, or the preference given was too little to give India any substantial advantage. In the former category he put wheat, rice, coffee and magnesium chloride[40], and in the latter vegetable oils and linseed.

Coming to the category of retained preferences, Mody first made the point that India's position in the British market was *already quite secure*. She had in fact "managed to retain" this market and "even strengthen it" over the last several years. While Britain was losing her share of the Indian market, the British share of Indian imports, having dwindled from 63 per cent in pre-war years to 35 per cent in 1931–32, India not only maintained but even increased her share of the British market, the British share of Indian exports being 25 per cent in the pre-war years, 21 per cent in 1925–29 (the lowest point) and 28 per cent in 1931–32.

In this context Mody sought to question the official view that, if the Agreement was not ratified "much of the ground which India (had) retained could no longer be retained because Great Britain would give preference to the rest of the Empire countries and leave India out in the cold". Taking tea, "the most important of all the commodities affected by the Agreement", he argued that, though "considerable injury" could occur to the tea trade if preferences were withdrawn, Britain was most unlikely to do so because "India was the largest supplier of tea to the United Kingdom, and if she was put on the same footing as foreign countries, the duty... against Indian tea would determine the price of tea... in Great Britain... and the consumer would be hit very hard".[41] Similarly, for jute manufactures, he argued that, though Indian exports to Britain would suffer if

[38] Extracts from *The Leader*, 7 September 1932, *L/E/9*/1115, IOR, London. An India Office note on these extracts accepted that the value of the preference were greatly reduced in the absence of foreign competition and that this applied more to "the preferences given by the UK than... those given by India". *L/E/9*/1115, IOR, London.

[39] See for the following account, H.P. Mody, *LAD*, Vol. VI, 10 November 1932, pp. 1946–52.

[40] Mody argued that India exported only 7 per cent of her production of rice and out of that a mere 3 per cent went to Great Britain. As for the others, especially wheat and magnesium chloride the exports to Great Britain were said to be even more negligible.

[41] Also Mody added that it should not be forgotten "that tea was free of duty and that it was for budgetary and revenue considerations that this preference was introduced". Mody however dismissed the consideration expressed by Birla and other capitalists that tea was owned by foreign capital with the argument that nothing prevented Indians from becoming dominant shareholders in tea as they managed to do in Jute, an erstwhile Scottish monopoly.

preference was not given, it must be remembered that "Great Britain only (took) six or seven per cent of the total export from India", and also that India had the "whip hand... as regard jute manufactures... in the sense that (she had) a monopoly of the production of raw jute, and if a duty were imposed upon jute manufactures, it could be counterveiled by an export duty on raw jute".[42]

As for the other commodities selected by Mody for comment, he said that in teak and pig lead the preferences were of some advantage to India but how much was not known as the relevant figures were not published. In spices Indian exports to UK were negligible and tobacco could easily be consumed in the Indian home market if a shift was made towards cigarette tobacco, making preference in either case of not much use.

Third, apart from the disadvantages of the nature of preferences given by both sides, the capitalists had an additional grievance regarding the *pattern* of trade promoted by such preferences. The Federation complained that "the Government of India had no industrial policy... which would foster indigenous industries and encourage utilisation of agricultural produce" and had therefore entered into an Agreement at Ottawa "under which the agricultural producer (was) expected in perpetuity to export his produce and to accept finished articles from abroad".[43] A little later, G.L. Mehta was to clarify further. He argued that, on the one hand, Britain was giving preference to Indian *raw material* exports in which either India had a monopoly or which were "essential to Great Britain" and in any case "none of the commodities on which Great Britain (gave) preference... hamper(ed) its own industrial development". On the other hand, India gave preferences on manufactured goods—"nearly 167... manufactured goods (receiving) preference under the Ottawa agreement"—in some of these (including preferences received outside of Ottawa) Britain was "our keenest competitor". Naturally, this pattern affected adversely India's efforts at industrialization.[44]

N.R. Sarkar, President of FICCI, added another dimension to the critique. He pointed out that the preponderant dependence on raw materials and agricultural production for our exports made the rural masses extremely vulnerable to the vagaries of foreign trade. He also pointed out how the government ignored India's internal trade, which was, including coastal trade, 20 times the value of foreign trade, and concentrated mainly

[42] It must be clarified here, there being a common misconception about it, that India had a monopoly only in *raw jute* and not in jute manufactures and raw jute was added to the *free list* at the instance of the Indian delegation at Ottawa. See *LAD*, Vol. VI, 10 November 1932, p. 1946, and India Office note on Birla's comments in *The Leader*, *L/E/9*/1115, IOR, London.

[43] FICCI communication to GOI, Commerce Department, 22 October 1932, after examining the Report of the Ottawa delegation, FICCI, *Proc. of EC*, 1932, pp. 13–14.

[44] G.L. Mehta, FICCI, *AR*, 1937, pp. 49–50. Also see, Birla in *The Leader*, 7 September 1932, *L/E/9*/1115, IOR, London.

on foreign trade because it was vitally interested in meeting India's foreign obligations (i.e., securing remittance) and perhaps also because the British business community had much larger interest in foreign trade than in the internal trade of the country.[45]

It was on arguments such as those discussed above that FICCI based its campaign against the Ottawa Agreement when it was brought before the Legislative Assembly for ratification towards the end of 1932. The Viceroy complained to the Secretary of State of the "agitation being engineered against the (Ottawa) Bill, very largely by Birla" and of the "considerable opposition" to the Agreement that had "manifested itself, owing largely to propaganda by FICCI". In this context the Viceroy was unable to push the Bill quickly through the Assembly, as desired by the Secretary of State, and was forced to consider (and eventually accept) the suggestion made by Mody and others that a committee of the House first examine the Agreement before it was put to vote.[46]

H.P. Mody, who had earlier given a comprehensive critique of the Agreement, changed his position after a committee of the house investigated and reported on it. He, despite "the weight of industrial and commercial opinion against (him)" and his having "fallen from grace", now supported ratification of the Agreement as he thought that staying out of the Ottawa arrangement would cause "vital injury" to Indian economic interests. Mody essentially argued that in the existing world conditions (of Depression) India's bargaining power in foreign markets had considerably changed. There was now a glut in world markets and huge stocks were accumulating, even in commodities where India had a monopoly such as jute. Economic nationalism was the order of the day with tariff barriers, prohibitions and quotas coming up all around. Also, from October 1929 to March 1931 the price of exported articles fell by as much as 39 per cent, while those of imported articles had only fallen by 14 per cent. The "uncertainty of currency fluctuations" further affected India's exports to foreign countries. As a result India's exports to foreign countries, particularly France, Italy, Japan and the United States of America, started "diminishing to a considerable extent in the last three or four years".

On the other hand, he argued, "Great Britain maintain(ed) her position with regard to our exports, while other foreign countries (were) taking less and less every year".[47] Also, being linked to Sterling, India's trade with UK did not suffer from exchange fluctuation, as it did with other countries. Given this situation, Mody argued, that it was in India's interest to be

[45] N.R. Sarkar, Presidential Speech, FICCI, *AR*, 1934.

[46] See Viceroy to Secretary of State, 11 and 12 November 1932, *L/PO/*270, IOR, London.

[47] Other capitalists, the dominant wing, however, argued that this was a *result* of Ottawa and showed that trade was being *diverted* to UK from non-empire countries—i.e., there was no substantial net increase due to Ottawa. More on this later.

linked to "Great Britain, today... *the largest and our most stable* market". If India refused to do so she would not receive any preferences and be treated in this vital market "in the same position as foreign countries"—that too at a time when Britain was abandoning free trade and was preparing to impose higher duties on foreign (non-empire) imports, the change of policy being embodied in the Import Duties Act of Great Britain.

Mody also recognized that conditions could change and the Agreement which was beneficial at that point need not be so in the future. To meet this eventuality, he argued, "a valuable privilege for this House" and a "safeguard for the country" had been secured—after three years if the Legislature after examining the situation decided that the Agreement was disadvantageous to India, and said so in a Resolution, the Government of India would "undertake to give effect to that Resolution" and give notice for its termination.[48]

The dominant section of the Indian capitalist class represented by FICCI, however, did not accept Mody's line of reasoning. As the results of the Ottawa Scheme began to emerge and the date of review drew closer, they intensified their campaign against it, the campaign reaching its climax in 1936 when the Agreement was terminated by a resolution of the Assembly.

Several objections began to be raised almost within a year of the Ottawa agreement having come into operation. First, it was said that the Agreement "only led to a *diversion* of trade" without giving "any *particular stimulus* to India's exports to the Empire countries". In a communication to the Government of India, dated 12 October 1934, FICCI argued that "the working of the Ottawa Trade Agreement for nearly two years showed without doubt that the improvement in, or the maintenance of, the trade between the United Kingdom and India had been at the expense of India's trade with other countries and that this diversion of India's trade was looked upon with grave apprehension in certain countries which were naturally contemplating measures to safeguard their interests".[49]

From this emerged the second major criticism of the Ottawa arrangement—that it led to "retaliation" by India's non-empire trading partners. A committee appointed by FICCI, consisting of the President, Padampat Singhania, D.P. Khaitan, Kasturbhai Lalbhai, Sri Ram and N.R. Sarkar, argued in a public memorandum in September 1935 that "the working of the Ottawa Trade Treaty obstructed India's direct trade relations with a number of foreign countries, particularly with European countries which initiated quota restrictions, import licences and exchange control" as a "self-defensive measure".[50] Such retaliatory measures, it was said, were already

[48] The above gist of Mody's views is from *LAD*, Vol. VII, 5 December 1932, pp. 2953–59, emphasis mine.

[49] FICCI, *Proc. of EC*, 1934, p. 16.

[50] FICCI Memorandum, *Proc. of EC*, 1935, pp. 44–45. As R.M. Gandhi (Grain Merchant's

"taken or contemplated by countries like France, Italy, Romania and Belgium".[51] Further, it was said that since the Ottawa Agreement, France and Italy had begun "a policy of developing their colonial possessions on lines similar to the British Scheme [i.e., inter-imperial trade as promoted by the Ottawa Agreement] and France [was] now taking from French West Africa raw materials in greater quantities at the cost of her trade with India".[52]

Third, it was said that the Ottawa arrangement tied India down to one market and restricted her freedom to negotiate with other countries.[53] It not only "obstructed direct trade relations with foreign countries in a number of articles and... tended to create entrepôt trade in London markets",[54] but also restricted "India's power to enter into bilateral treaties with her chief foreign customers".[55] This when the foreign, non-empire, countries took about 80 per cent of Indian exports.[56] On the other hand, it was said, Britain herself continued to have numerous trade agreements with foreign countries—"close on the Ottawa Agreement England concluded bilateral trade treaties with nearly 19 or 20 countries".[57]

Further, Kasturbhai Lalbhai, the FICCI President, questioned the argument that "the Empire market (was) the only stable market and (that) it would be in India's interest to develop it" and sounded "a note of warning... that India, as a substantial producer of raw materials (could) not in the long run afford to depend upon one single market—however stable—at the risk of losing her place in the other important foreign markets of the world". He added that just as the UK after initiating "the move of preserving (the) empire markets for Empire countries has all along... been concluding treaties with a number of foreign countries... it would be to India's advantage if she (was) to follow suit by negotiating independent trade treaties with her best foreign customers...."[58] Shri Pantulu of the South Indian Chambers of Commerce added that apart from the other

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Association, Bombay) put it: "In seeking preference for some of our exports to the empire countries we have alienated...some of the other countries." FICCI, *AR*, 1935, pp. 110–11.

[51] Kasturbhai Lalbhai, President, FICCI, *AR*, 1935, pp. 7–8.

[52] FICCI, *Proc. of EC*, 1935, pp. 44–45; and *Proc. of EC*, 25 August 1934, pp. 23–26.

[53] Chunilal Mehta, FICCI, *AR*, 1933, p. 127.

[54] FICCI, *Proc. of EC*, 25 August 1934, pp. 23–26; and Kasturbhai Lalbhai, FICCI, *AR*, 1935, pp. 7–8.

[55] FICCI Memorandum, September 1935, *Proc. of EC*, 1935, pp. 44–46.

[56] See Purshotamdas's interview, 22 August 1932, *PT Papers*, fl. 126. The Minority Report (1934) of the Committee, appointed by the Legislative Assembly to examine the Working of the Ottawa Agreement, argued that "The United Kingdom...cannot be normally expected to absorb more than 20 per cent of India's exportable commodities, and as in the past so in the future we have to depend on non-Empire markets for the bulk of our exports". *L/E/9/*1122, IOR, London.

[57] G.L. Mehta, FICCI, *AR*, 1937, p. 49; and Chunilal Mehta, FICCI, *AR*, 1933, p. 127.

[58] FICCI, *AR*, 1935, p. 8.

disadvantages of India becoming "increasingly dependent on trade with the UK" through agreements like the Ottawa agreement, it was "*politically harmful* to make India increasingly dependent upon her trade with one or two countries".[59]

Fourth, it was pointed out that under the Ottawa scheme the United Kingdom was given preference in the Indian market to the exclusion of its foreign competitors who were "as good customers as the United Kingdom" of Indian goods. India thus not only suffered a loss of "goodwill" in these foreign markets for her goods but was left with "no bargaining power for negotiating reciprocal trade treaties" with them, as there was "no scope left for offering [a] certain portion in (India's) import trade" through preference or otherwise to "the United Kingdom's competitors in the Indian market".[60]

On the other hand, it was said that, while in the Indian market the UK had exclusive preference, in the British market India had the same preference as the Dominions and other colonies, "with the result that India could not take advantage of the preference offered to her".[61] It was argued that "on examination of the figures relating to wheat, coffee, tea, choir yarn and groundnut it was found that... the Dominions gained a greater advantage as a result of the preference scheme at the cost of India's export to the United Kingdom".[62] In any case, it was said, the grant of 10 per cent preference to India in the UK market was not "found effective to stimulate expansion of her trade" with that country in a situation where her competitors like Canada, Australia, New Zealand, Argentina and Brazil had undergone "greater devaluation of their currencies than India" in terms of Gold parities between 1931 and 1936.[63] The case of wheat was cited as an example where the exports to UK fell drastically, despite preference, "partly because of large imports from other Empire countries which also enjoyed the same preference and partly because of large imports from other countries with greater depreciated currencies".[64]

It was also pointed out that though the Dominions profited to a much larger extent than any other country in terms of increasing their share of the British market (see Table 7.1), yet they were "as free as England to negotiate bilateral treaties with other sovereign nations which India (was) debarred from doing". Britain was able to extract a quota from Germany

[59] FICCI, *AR*, 1935, p. 112, emphasis mine.

[60] FICCI Memorandum, September 1935, FICCI, *Proc. of EC*, 1935, pp. 44–46; and FICCI to GOI, Commerce Dept., 24 August 1936, FICCI, *Corresp.*, pp. 115ff.

[61] *Ibid.*

[62] FICCI Memorandum, 25 August 1934, FICCI, *Proc. of EC*, 1934, pp. 23–26.

[63] FICCI to GOI, Commerce Dept., 24 August 1936, FICCI, *Corresp.*, pp. 111ff.

[64] *Ibid.* This FICCI communication also contains a commodity-wise detailed breakdown of India's exports since Ottawa.

Table 7.1

Percentage Share of Some Important Countries in the Import Trade of UK

	1929	*1934*
India	5.1	5.8
United States	16.1	11.2
Canada	3.8	6.9
Australia	4.6	6.8
Argentina	6.8	6.4
New Zealand	3.9	5.5
Germany	5.6	4.2

Source: Table 10 of Memorandum issued by FICCI, cited by B. Das, *LAD*, Vol. IV, 27 March 1936, p. 3385.

while India failed to do so, despite the balance of trade with Germany having turned negative for the first time in 1934–35.[65]

In the changed economic situation in the world following the Depression, the rise of economic nationalism, etc., the capitalists felt that the Ottawa scheme, with its disabling features (discussed above) which impeded the proper growth of India's exports to both the empire and foreign markets, was totally inadequate in meeting India's needs. They pointed out that India's export surplus had dwindled, and though it had increased somewhat from the rock bottom reached in 1932,[66] it was yet totally insufficient to meet India's external obligations resulting in the drawing of her reserves of gold and in continuing gold exports. In this situation the demand was raised for the termination of the Ottawa Agreement and the negotiating of bilateral trade treaties "with important customer countries of India... in order to safeguard the export trade of India".[67]

In March 1936, Mathuradas Vissanji (Indian Merchants' Chamber) moved an amendment in the Legislative Assembly demanding the termination of the Ottawa Agreement "without wasting more time" with any further inquiries and committees "and permitting more damage to our trade".[68] Vissanji gave three major grounds (on lines adopted by the FICCI)[69] for demanding an immediate termination of the Agreement, because of which

[65] B. Das (a signatory to the FICCI Memorandum), *LAD*, Vol. IV, 27 March 1936, pp. 3385–86.

[66] India's balance of trade in merchandise which averaged about Rs 780 million between 1926–27 and 1930–31 fell to about 30 million in 1932–33 and was only about 300 million in 1935–36, necessitating massive exports of gold since 1931–32. See Subramanian and Homfray, *Recent Social and Economic Trends*, Table XII, p. 45.

[67] For the views in the above para see FICCI Resolution and Sri Ram's speech, FICCI, *AR*, 1935, p. 105; and President N.R. Sarkar, FICCI, *AR*, 1934, p. 8.

[68] Mathuradas Vissanji's views in the following paragraphs are from *LAD*, Vol. IV, 26 March 1936, pp. 3307, 3319–23. The government motion was that a committee be constituted to examine and report on the working of the Ottawa Agreement.

[69] See Viceroy to Secretary of State, 27 March 1936, *L/E/9/*1123, IOR, London.

"the trade of India... positively suffered a setback" rather than receiving any "benefit as... the advocates of the Ottawa Agreement expected".

First, he argued, the Agreement had "ruined our trade with other countries, and not benefited it with the countries enjoying special preference even to the extent of compensating us for our loss". To explain with figures he pointed out that "the total exports fell" even from the low level of "157.6 crores [1,576 million] in 1931–32[70] to 152.39 crores [1,523.9 million] in 1934–35". Though there was an "improvement in regard to exports to the United Kingdom of 5.81 crores [58.1 million]" over this period, it "was more than counterbalanced" by the decline in exports to other countries by 104 million. Further, in the exports of the articles enjoying preference there was an improvement in the trade with UK by some 34 million, while India "suffered a loss of nearly 20 crores [200 million] with other countries in these same articles". This, Vissanji argued, demonstrated "the real reason" why Indian trade had been "particularly adversely affected" since 1931–32. The decline in Indian exports could not be "explained away" entirely "by the existence of special conditions" like the Depression and rise of "Economic Nationalism" in other countries, but was connected to the "insular" policies of restriction and preference adopted by Britain in 1932, which "she compelled (India) to follow", leading to "other countries, formerly trading handsomely with us (being) obliged perforce to curtail their purchases in this country because they (could) not sell their products to this country on anything like a fair exchange basis".

India's performance in the "non-preferred articles", it was claimed, threw even "more lurid light on the working of the Agreement". The total exports of these non-preferred articles actually increased by 113.5 million, from 463.6 million in 1931–32 to 579.8 million in 1934–35, "without the very dubious aid of Imperial Preference". The exports to Britain in these items increased by 34 million and to other countries by 95.7 million. Vissanji therefore argued that "If these figures teach any lesson, they show that preference within the empire is by no means necessary for improving the trade of India" and that though "the fiscal policy of other countries has always aimed at economic nationalism" it "however did not prevent them from buying India's foodstuffs and raw materials, to keep up their own industries".

The second major ground on which Vissanji "unreservedly" condemned the Ottawa Agreement was "that it (had) interfered seriously with our Balance of Trade by favouring specially countries with which we habitually have a passive (negative) balance at the expense of the countries with which we normally have an active (positive) balance". This led to the "ruin" of India's erstwhile favourable balance of trade position when she

[70] In 1931–32 India's exports were already less than half the average of the previous five years. See Subramanian & Homfray, *Recent Social and Economic Trends*, Table XII, p. 45.

was a net "heavy importer of specie" (after balancing her accounts of visibles and invisibles) and turned her into "as heavy an exporter of Gold". Citing Tables 7.2 and 7.3 Vissanji argued that "with the United Kingdom we always held an unfavourable balance of trade; and this Agreement has done nothing to alter that".[71] He added that "to meet this adverse Balance of Trade and a still heavier balance of accounts"[72] India needed "to have a favourable balance of trade with other countries" but ironically the Agreement "penalised... precisely those countries" with whom India traditionally had a favourable balance. With Germany India's positive balance even turned negative for the first time in 1934–35, while in the case of the other countries the balance had fallen drastically. The imports from Britain actually *increased* by 36 per cent between 1929–30 and 1934–35 as a result of the Agreement[73], while the imports from other countries fell by nearly 5 per cent. On the other hand, India's overall exports fell by 52 per cent over the same period. No wonder India's "balance of accounts (were) inevitably prejudiced against" her.

Table 7.2

India's Adverse Balance of Trade with UK: 1929–35 *(in million rupees)*

1929–30	365
1931–32	20
1932–33	118
1933–34	3
1934–35	62

Table 7.3

India's Balance of Trade with Selected Countries: 1929–35 *(in million rupees)*

	1929–30	*1934–35*
Netherlands	49	12
Belgium	54	20
France	122	37
Italy	46	27
Japan	87	33
U.S.A.	186	45
Germany	over 100	−31

Source: *Legislative Assembly Debates*, Vol. IV, 26 March 1936, p. 3322 (figures in original sources were in crores).

[71] Table 7.2 however, does show a significant decrease in the negative balance of trade which Vissanji did not explain.

[72] The latter was "heavier" because of the very high negative balance in invisibles that India always maintained with UK, See, for example, Bannerji, *India's Balance of Payments*, Chapter 5.

[73] Again Vissanji ignores the fact that despite increase in imports from Britain, India's adverse *balance* with UK actually declines in this period (see Table 7.2).

Third, Vissanji argued that the Agreement

> by its very existence... prevented the development of those Indian industries, which may be competing with the corresponding industries of the countries enjoying preference in the Indian markets, or precluded them from developing to the full extent to which they would have developed in the absence of such preference to their most formidable rival: and so injured the general economic position of this country, for which the consequences of the Treaty afford no compensation.

Further he said, "all that this agreement was intended to achieve was to improve the trade of Britain and markets for her industries unable to compete on equal terms with her new rivals. And this the Treaty has eminently accomplished—no matter how the Indian trade and industry fare in consequence".

Given these considerations, Vissanji argued that the Ottawa Agreement be "forthwith terminated" and that India should "refuse to conclude any new treaty with Britain, or any other country, except on a basis of perfect equality and reciprocity, and after consultation with this house".[74]

H.P. Mody put forward a different point of view questioning in detail many of the arguments put forward by Vissanji, FICCI and the Congress.[75] He argued that Ottawa "was a *measure of self defence*" in abnormal times when "increased duties... quotas, prohibitions and State monopolies had been introduced" by a large number of countries, resulting in world trade coming down by 26 per cent (compared to 1929) already by the time of the Agreement. In this context, he suggested that Ottawa stemmed the tide for India. India's *exports actually increased* from Rs 1,360 million in 1932–33 to 1,540 million in 1934–35 and promised to go up to 1,620 million in 1935–36. "In *preferred* articles", he said, "our export trade... shows a positive gain in the United Kingdom market and a slight rise in other markets". Mody was able to reverse Vissanji's argument and show an *increase* in general exports as well as in the export of preferred articles to other countries by simply choosing 1932–33, which was the worst year for Indian exports in the whole decade (though he wrongly claimed that "exports had already begun to look up" that year),[76] as his base year, while Vissanji had chosen 1931–32.[77]

[74] For arguments similar to Vissanji's for demanding denunciation of the Ottawa agreement, see D.R. Gadgil, *Servants of India*, 16 January 1936 (extracts) *L/E/9/1122*, IOR, London; and *Minority Report of the Committee Appointed by the Legislative Assembly to Examine and Report on the Ottawa Agreement*, Simla, 1934.

[75] Mody's views in the following paragraphs are from *LAD*, Vol. IV, 30 March 1936, pp. 3442–49, emphasis mine.

[76] See Subramanian and Homfray, *Recent Social and Economic Trends*, Table XII, p. 45.

[77] As for the increase in exports after 1934–35 (the end year used by Vissanji) the FICCI was to argue that it occurred because of factors independent of Ottawa. See pp. 225ff.

The increase in exports of non-preferred articles, Mody argued, did not show that Ottawa was irrelevant, as claimed by the opponents of Ottawa, but was, as pointed out by John Mathai, a result of the fact that "our position there was less vulnerable than in preferred articles".[78]

Further, Mody correctly pointed out that though the overall balance of trade had not improved sufficiently to meet India's "home charges and (other) commitments", it had improved considerably since the rock bottom reached in 1932–33.[79] Also, he pointed out that India gained relatively more in the general improvement in world trade. The index point of world trade, with 1929 as base, rose from 74 in 1932 to 77.5 in 1934, while the Indian figures were 75 for 1932 and 86 for 1934–35.

Mody made two other points. First, he said that the argument regarding retaliation by other countries in response to empire preferences was a false one. "The restrictions which have been imposed in various countries have been imposed, not because of India's action in allying herself with Great Britain at Ottawa but in defence of exchanges, or for protection of agriculture and industry, or for redressing of the balance of trade"; and also "these restrictions have been made equally applicable to all" not only to India.

Second, he pointed out that even by FICCI's own admission India's balance of trade was positive with almost all her trading partners barring the UK. This gave India very little bargaining power with countries other than the UK and that was what explained why no bilateral agreements could be negotiated with them—Ottawa was not the main obstacle.

In this general context, Mody argued, India was able to secure "a preferential market" with Great Britain, a country with the "least import restrictions" and "undoubtedly... our best and most stable customer, a customer who (was) increasingly taking more and more from this country.... The largest proportion of our trade (was thus) secured against the economic disturbances which (were) so prevalent throughout the world." Also, "the advantage of having relations with a country whose currency stands out today as the most solid thing in a world of shifting sands cannot be exaggerated".[80]

[78] Mody also pointed out that "practically the whole" of the increase in exports of non-preferred articles "was due to the increased takings by Japan of Indian cotton". John Mathai, adopting more or less the same general line as Mody, added that India received preference in commodities where... India's competitive position was fairly weak, not where she had a strong or monopoly position as was claimed. He argued that in commodities like linseed, groundnut, manufactured jute and tea India was "up against very severe competition". For Mathai's view see, *LAD*, Vol. IV, 26 March 1936, pp. 3332–39.

[79] Mathai argued that the fall in balance of trade since the beginning of the Depression could be explained by the general fall in prices and particularly the steeper fall in agricultural prices than industrial prices, i.e., it could be explained by factors independent of the Ottawa Agreement. *LAD*, Vol. IV, 26 March 1936, pp. 3335–36.

[80] Interestingly, as we noted earlier, arguments similar to the ones in this paragraph have

Mody argued, that the termination of the Ottawa Agreement would mean that, "we would be at a disadvantage in the markets of our best customers without any corresponding advantage in foreign countries". He added that if the Dominions "got a better bargain than India" out of Ottawa, it was "only an argument for *revising* the Agreement" not terminating it.

The course suggested by Mody was to "negotiate and revise" but not terminate the Agreement. He also warned that termination would have an adverse "psychological effect on the minds of responsible people in the United Kingdom"[81] and would "also create a very considerable amount of uncertainty and dislocation of trade". More important, "there would also be a considerable setback in the takings of our cotton on the part of Lancashire" in a situation where, "as a result partly of Ottawa and largely of the Indo-Lancashire Agreement",[82] Lancashire had already considerably increased her purchase of Indian cotton and was likely to substantially increase it in the near future.[83]

In a long and detailed note prepared by FICCI, it questioned the view that the improvement in India's export trade in 1935–36 had been due to the Ottawa arrangement.[84] The note argued that the fact that in 1935–36 Indian exports to foreign countries showed an improvement of nearly Rs 90 million over 1934–35, while imports increased by only Rs 20 million had wrongly given the impression that this was because of the operation of the Ottawa Agreement. A further impression was that the Agreement benefited India more than UK because exports to the UK increased by 20 million while imports from that country decreased by 15 million. It was said that such a conclusion based on general figures was unfair.

Instead, on the basis of a detailed breakdown, the FICCI note came to the conclusion that it was "owing to the general improvement in the industrial activities in some of the chief industrialised countries of the world that there has been an improvement in the export trade of India and not mainly due to the preference offered to India by the United Kingdom in her market".[85] To support this view the note said: (*a*) That in case of coffee, hides and skin raw, pig-lead, oil cakes, paraffin wax, jute manufacture,

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been made in recent years by radical economic historians like A.K. Bagchi and Basudev Chatterjee, see p. 206.

[81] As we saw earlier, p. 208 fn. 12, the Secretary of State was very keenly aware that with the success or failure of Ottawa were linked the impact on important British public opinion and consequently the fate of constitutional and other developments in India.

[82] What was popularly known as the Mody–Lees Pact. More on this later.

[83] Interestingly the Viceroy attached "particular importance" to this warning by Mody. Immediate Telegram from Viceroy, 31 March 1936, *L/E/9/*1123, IOR, London.

[84] *Note on the Foreign Trade of India for the Year 1935–36, Viewed in Relation to the Operation of the Ottawa Trade Agreement*, circulated to members of the Executive Committee of the FICCI, 22 May 1936, and views of the FICCI Executive Committee, FICCI, *Corresp.*, 1936, pp. 94ff.

[85] Pandit Govind Ballabh Pant, the Congress leader, had made much the same point in the Legislative Assembly though for the years 1933–34. See *LAD*, Vol. IV, 30 March 1936, p. 3471.

tobacco and timber there was an all-round improvement in the exports to all parts of the world. Out of the total improvement of 42.50 million (all the figures are for between 1934–35 and 1935–36) UK was responsible for only 17.80 million. (*b*) That in case of hemp, raw jute and raw wool which did not receive any preference in the UK market there was improvement of 40.30 million out of which the UK was responsible for 10.30 million. (*c*) That in case of raw cotton though there was a setback of 12 million, there was an improvement in exports of 10.90 million with UK. It must be remembered that the setback in cotton was because Italy, in view of the Italy–Ethiopia war, took 11 million less and Japan took less to the extent of 35.90 million in view of the impending trade treaty. (*d*) That in case of rice, pig iron and groundnut UK took *less* to the extent of 8.20 million but this setback was more than made good by other countries leading to an overall improvement of 16.90 million. (*e*) That in case of linseed, rapeseed, tea and woolen carpets India suffered, in spite of preferences, a setback of 13.80 million, of which UK alone was responsible for 9.20 million.

On the whole the note argued: "while there has been an improvement of 739 lakhs [73.9 million] in the export of these articles to all countries, UK was responsible for 226 lakhs [22.6 million] ". The Ottawa agreement thus did not benefit India "to the extent to which its supporters have credited it with"; on the contrary, it handicapped her from negotiating better terms with countries from whom she was importing more (such as Germany), and it intensified "sub-conscious retaliation" from non-empire countries who resorted to import licences, quota restrictions, exchange control, etc.

On 30 March 1936 the Legislative Assembly gave its verdict on Ottawa. It voted with a thin majority of 70 to 65 for an amendment demanding the termination of the Agreement rather than for the original government motion that a committee be constituted to examine and report on the working of the Ottawa Agreement.[86] It was not Vissanji's but Jinnah's amendment which the Assembly eventually voted in. Jinnah's amendment, though it was seen by the India Office as less embarassing to the government,[87] was similar to Vissanji's and incorporated the main demand of the Congress and FICCI for immediate termination of the Agreement and was supported by them. In addition, the amendment recommended (a long standing FICCI demand) that the Government of India immediately "investigate the possibility of entering into such bilateral trade treaties" with the UK and other important countries as would bring about "the expansion of export trade of India in those markets and submit such a treaty or treaties for the approval of this Assembly".[88]

The vote for the termination of the Ottawa Agreement was a big morale booster for the Congress and the capitalists (they having earlier failed in

[86] *LAD*, Vol. IV, 30 March 1936, pp. 3502–3.
[87] E.J. Turner's note, 30 March 1936, *L/E/9*/1123, IOR, London.
[88] *LAD*, Vol. IV, 30 March 1936, p. 3502.

the Assembly on the question of the rupee exchange ratio) and acquired a significant political dimension because the "Government which (was) not otherwise responsible" was committed to "give effect to the vote of the House".[89] The government had expected the vote to "be dictated by political rather than economic convictions".[90] The Viceroy felt that, "the realisation by the Congress that here was at last a...chance of making their vote in Assembly effective" and "if they won... this would of itself increase their prestige considerably", had a lot to do with "the Assembly decision on Ottawa".[91]

The defeat of the government on this question also considerably increased the bargaining power of the capitalists represented by FICCI. Convinced, not entirely incorrectly, that the "Ottawa agreement was condemned, not so much on merits but because Indian commercial opinion believed it had not been sufficiently consulted when the agreement was concluded",[92] the government was to try to give the Indian capitalists an "adequate say" in the negotiations for the imminent new agreement on the assumption that this would help "secure the approval of the legislature of the resultant agreement".[93] As we shall see below, when we discuss the Indo-British Trade Negotiations of 1937–39, the capitalists' bargaining position with the government did improve considerably though Imperial control remained intact and perhaps even hardened further.

III. Mody–Lees Pact and Indo-British Trade Agreement, 1935

The Ottawa Agreement had not dealt with questions of tariffs on cotton textiles imports and raw cotton exports from India, perhaps the most volatile and vexed economic issues of the 1930s for both Lancashire and India. India had a surplus of about 2 million bales of one of its major crops, short and medium staple raw cotton. Given the general fall in exports of primary produce since the Depression and the threat of boycott of Indian cotton from Japan (she took the bulk of India's surplus cotton), the situation was precarious for India. On the other hand, Lancashire was rapidly

[89] See Bhulabhai Desai's Diaries, entry for 30 March 1936, *Bhulabhai Desai Papers*, Subject fl. no. 11 Bhulabhai Desai also gives a most interesting description of the Assembly proceedings and what went on behind the scenes during the Ottawa debate.

[90] Viceroy's Telegram to India Office, 27 March 1936, *L/E/9*/1123, IOR, London.

[91] Viceroy to Secretary of State, Private and Personal, 11 April 1936, *L/E/9*/1124, IOR, London.

[92] Government of India, Commerce Dept. to Secretary of State, 26 June 1936, *L/E/9*/1124, IOR, London.

[93] *Ibid.*; Minutes by E.J. Turner, Economic and Overseas Dept., July 1936 and Telegram sent by Secretary of State, 16 June 1936, *L/E/9*/1124, IOR, London.

losing her share of the Indian market both because of intense foreign, mainly Japanese, competition and import substitution by indigenous Indian textile mills. The percentage share of India's imports of cotton piecegoods held by Britain fell from 94 in 1913–14 to 79 in 1928–29 and to a mere 32 in 1938–39.[94] This when India's import of cotton piecegoods fell due to import substitution by over 60 per cent (about 75 per cent in value terms) between 1928–29 and 1936–37. (By the end of the Second World War the total imports of cotton piecegoods were virtually insignificant, a mere 5 million yards in 1944–45.)[95] Lancashire's exports to India dwindled from 3,000 million yards in 1913 to an average of about 1,400 million yards between 1922–23 and 1929–30, falling sharply again to 520 million yards in 1930–31; and by 1939 they had come down to a mere 145 million yards.[96] Faced with this drastic decline, Lancashire was persistent in demanding preference in the Indian market.

However, the government did not wish to queer the pitch at the Ottawa negotiations by bringing in the historically[97] highly sensitive question of preference to Lancashire. They had hoped to get preference for Lancashire goods through the recommendation of a Tariff Board and, with this in view, had appointed a Tariff Board to look into this question in April 1932, a few months *before* the Ottawa Agreement was signed. However, the Tariff Board, which reported in December 1932, dashed the hopes of Lancashire and the government. It recommended higher protective duties for cotton textiles and no Imperial Preference on the ground that important categories of textiles imported from the UK competed with Indian industry and also that for the future prosperity of Indian industry protection was necessary to enable it to shift to production of finer counts of textiles.

Lancashire was up in arms, threatening to withdraw critical support from the ongoing constitutional negotiations between India and Britain. In this context the government decided to shelve the Tariff Board report and extend the existing 1930 Textile Tariff Act.

Meanwhile, the Japanese invasion of the Indian market was seriously threatening both Lancashire and Indian textile interests. From December 1931 to early 1933 the yen fell by about 40 per cent, sharply depreciating in relation to sterling and consequently the rupee. Further, Japan was resorting to massive dumping. The government wished to combine the politically dangerous task of suppression of the 1932 Tariff Board report with action against Japan, which would partially satisfy Indian opinion. In

[94] Tomlinson, *Political Economy*, p. 47.

[95] These figures are calculated from Subramanian and Homfray, *Recent Social and Economic Trends*, Table XII, p. 49.

[96] See Zafrullah Khan, Commerce Member, *LAD*, Vol. III, 27 March 1934, pp. 2828–29; and Chatterjee, "Lancashire Cotton Trade", p. 1.

[97] The reference here is to the tariff debate of the second half of the nineteenth century.

August 1932, on British and Indian demand, the duty on non-British (mainly Japanese) goods had already been raised from 25 to 50 per cent. Since this failed to stem the tide of the Japanese invasion of the Indian market, the British government decided in April 1933 to authorize India to renounce the Indo-Japanese Commercial Convention of 1904 to enable her to take effective counter-measures against Japan. By June 1933 the duty against non-British goods was raised to 75 per cent. Japan, the main buyer of Indian raw cotton, immediately retaliated with a partial boycott. Negotiations with Japan for a new Indo-Japanese Trade Agreement became imperative and were to begin shortly—ending in an agreement in January 1934.

While negotiations with Japan were still on the anvil, opinion gained ground that an understanding between Lancashire and Indian textile interests (both severely threatened by Japan and both seeing her as a common enemy) could be helpful to both sides. On the one hand, it would mollify the "die-hards" in Britain, particularly Lancashire, easing the path of the ongoing constitutional negotiations in the Round Table Conference and, on the other, it would strengthen the bargaining power with Japan, for example, if Lancashire could be pursuaded to lift more Indian raw cotton. Perhaps, most important from the British point of view, it would enable the overruling of the 1932 Tariff Board report.

It is in this context, as we shall presently see, that the negotiations between Lancashire and Indian textile interests were to take place, ending with an agreement between Lancashire and a section of Indian textile interests. The Bombay–Lancashire Agreement or, as it was commonly known, the Mody–Lees Pact, was signed on 28 October 1933. The tariff provisions of the Mody–Lees Pact and the Indo-Japanese Trade Agreement (along with some extremely offensive additional clauses) were first incorporated into the Textile Tariff Act in April 1934 and then into the Indo-British Trade Agreement (supplementary to Ottawa) in 1935, amidst widespread opposition in India. The 1932 Tariff Board Report, which had been shelved for so long, was finally "buried". The Mody–Lees Pact superceded it, bringing preference into textiles through the back door.[98]

We will pick up the story from the very early initiatives for private negotiations between Lancashire and Indian textile interests.

As early as May 1932 an attempt was made at "private diplomacy" by a correspondent of the *Morning Post* to promote the idea of a cartel between the millowners of Bombay and Lancashire. H.P. Mody, Chairman of the Bombay Millowners' Association (BMOA), was cooperative being "fully alive to the urgent necessity" of concerted efforts "to overcome the Japanese menace". However, he warned, correctly anticipating developments

[98] The above account is based on Chatterjee, "Lancashire Cotton Trade", Chapter 6; Drummond, *British Economic Policy*, Chapter 4; and Adarkar, *Indian Fiscal Policy*, Chapter 18. Chatterjee's work is the best and the most detailed on the subject.

in the future, that "any scheme of compromise between the Indian and Lancashire interests (would) have to bring about the question of Imperial Preference" and people like G.D. Birla were not likely to "sponsor any scheme that (had) anything to do with Imperial Preference". Besides, the 1932 Tariff Board had not yet reported and the Ottawa negotiations were still going on, making any independent attempt of this kind somewhat difficult.[99]

It seems that in early 1933 a private delegation of the Manchester Chamber "visited Bombay to see if, in view of increased Japanese competition, millowners there were in favour of a market sharing scheme with Lancashire. The delegation found the millowners willing".[100]

In June 1933, in the context of the anti-dumping measures taken against Japan in the form of high duties and the proposed Japanese retaliation through boycott of Indian cotton, Purshotamdas had discussions with Lancashire representatives. Purshotamdas expressed "strong apprehensions" regarding the impact on the Indian cultivator if Japan refused to take Indian cotton. He also added that "preference given to Lancashire goods must entail diversion of the normal trade channels between India and Japan", where "Japan took 2 million bales of cotton... and in return sent... large quantities of piecegoods... balancing the trade of the two countries". Therefore, if cotton goods were to come from Lancashire through preference, then it was up to Lancashire to pick up more Indian raw cotton of the type in which India had a surplus[101] and which was normally taken by Japan. Some sort of preference to Indian cotton would have to be made available by the UK to "ensure Lancashire taking a substantial part of it".[102]

In July 1933 a dinner meeting was organized in London between Indian businessmen connected with the cotton trade (Purshotamdas, H.P. Mody, Ness Wadia and H.M. Mehta attended) and some Lancashire representatives. Three MPs and Sir Horace Wilson, Permanent Under Secretary of the Board of Trade, were among others who attended. The meeting decided that Mody would try to get the Lancashire spinners to see "the Indian point of view" (presumably regarding consumption of Indian raw cotton), and that a deputation of some of the top men in Lancashire would come

[99] See note of discussions between Mody and a correspondent of *The Morning Post*, 10 May 1933 and (Illegible) of *The Morning Post* to Samuel Hoare, 26 May 1932, *L/PO*/50, part two, IOR, London.

[100] Chatterjee, "Lancashire Cotton Trade", p. 372.

[101] Lancashire textile production was generally based on longer staple cotton of which India had no surplus. Indian industry consumed 80 to 90 per cent of her medium and long staple cotton. The Indian surplus was in short staple cotton. See Purshotamdas Thakurdas and Kasturbhai Lalbhai, FICCI, *AR*, 1934, pp. 121 & 125 respectively.

[102] Indian Cotton Enquiry Committee, Memorandum of Discussion between Purshotamdas, the representative of East India Cotton Association and Lancashire representatives, 26 June 1933, *PT Papers*, fl. 142.

out to India to negotiate with the Government of India and Indian mill-owners around September, roughly the time when the Indo-Japanese negotiations would be taking place.[103]

Interestingly, the India Office saw this meeting between Indian and Lancashire interests partially as an attempt to preempt mutual discussion of Indians and the Japanese "leaving Manchester out".[104] Similarly, E.C. Benthall, a British businessman and an important member of the European group in India, on learning "that conversations (were)... to take place in India between India, Japan and Lancashire" proposed to try to "get Lancashire to... see the necessity of coming to an *entente* with Bombay before the meetings (took) place" fearing that if they did not "keep together they (would) be jumped by Japan".[105] Mody, on the other hand, feared and tried to prevent an Anglo-Japanese settlement leaving India out.[106]

Shortly after this July meeting Mody went to Manchester. On his arrival in England a month earlier he had been shocked at "the attempts being made to whittle down the reforms promised" and at Lancashire trying for constitutional safeguards "whereby no future Government or legislature (could)...discriminate against British goods". When he visited Manchester he pointed out to the "textile leaders" that "they could not hope to trade with India at the point of the bayonet. The better course would be to earn the goodwill of the people of India" by supporting their political aspirations; and "there was bound to be reciprocity on the Indian side".[107] Mody put forward the bargain that cooperation was possible between India and Lancashire and there was no reason why efforts could not be made to re-establish Lancashire's share in the Indian market in areas where there was no indigenous competition (the finer counts of cloth), provided Lancashire was willing to help India "in other directions"—such as taking larger quantities of Indian cotton, giving up the attitude of hostility to the "legitimate demands of political India", so that India could rely on Lancashire's support in the solution of her political problem and in

[103] Purshotamdas's Diary, entry for 17 July 1933, London, *PT Papers*, fl. 140. Purshotamdas also noted in his diary, "In fairness to Wadia and Mody I must record here that they have not committed themselves to anything at all, and they want the Lancashire spinners to settle the question in India. I am convinced so far that that Mody and Wadia are looking at the question from the Indian point of view." *Ibid*.

[104] July 1933, *L/PO*/501, IOR, London.

[105] E.C. Benthall to Henderson, 24 July 1935, *Benthall Papers*, Box XV, South Asia Archives (SAA), Cambridge.

[106] On finding that the "stage (was)...set for discussions between the Japanese and the British industrialists in London", Mody made it clear to the British "that any attempt on their part to settle with Japan or with any other power the problems of the Indian market would be strongly resented". See *LAD*, Vol. III, 18 March 1934, pp. 2198–99.

[107] Manuscript of Mody's Autobiography, Chapter 12, p. 10. *H.P. Mody Papers*, Misc. 5, NMML, New Delhi.

acknowledging India's right to frame her own policy whether in regard to tariffs or constitutional safeguards or any other measure.[108]

Purshotamdas, calling himself a "nationalist" and one "keenly interested in Indo-Japanese conflict over the cotton trade", made much the same points (as Mody) in an interview given in London to the Oriental News Agency on 28 July 1933. He argued, "I see no reason why Lancashire should not have preference in India" provided Lancashire recognized "that India will pursue her own normal course of industrial development (like) every other country", and did not "try to retard this growth by any kind of political pressure", creating a feeling of "injustice and grievance" as happened "in the case of the cotton excise duty".[109] Also, he added, India had a surplus of "short or fair staple cotton" of about 2 million bales per year of which Japan took the bulk. But given the "preferential Treatment to Lancashire" and "the Anti-dumping duties on Japanese goods", Japan, faced with a diminished market for her piecegoods, would to that extent "stop buying our cotton". That is where Lancashire could be expected to step in. "The country that wishes to sell its textiles to (India) ... must buy her surplus cotton...especially as cotton growing is one of her major crops." Given these provisoes, Purshotamdas welcomed the opportunity the proposed Lancashire delegation would provide for the "Lancashire industrialists...(to) sit face to face with Indian industrialists and discuss the question from a purely commercial point of view".[110]

From the Lancashire side, Lord Derby assured Purshotamdas that if with his help a "satisfactory agreement" between Lancashire and Indian interests could be made at the proposed conference in September, then not only would the Japanese competition be met but "it would almost altogether allay the feeling of anxiety that Lancashire has with regard to the White Paper and would secure support where there is now opposition". Derby was hopeful that such an agreement would mellow the diehard sections in Lancashire and would allow the "new constitution (to) start with the very best wishes of...Lancashire".[111]

[108] *Manchester Guardian*, 22 July 1933, in *PT Papers*, fl. 142. Benthall too was annoyed at the "incredible stupidity which impels them (Lancashire people) to believe still that pressure on British parliament will result in the British government insisting upon reduced tariffs against Lancashire goods in India". It is this attitude combined with dissentions within Lancashire which, Benthall believed, led to the slowing down of the crucial process of *entente* between Lancashire and Bombay. Benthall to Henderson, 25 July 1933, *Benthall Papers*, Box XV, SAA, Cambridge.

[109] The reference is to the famous controversy over the imposition of counterveiling excise duties on Indian textiles in the 1890s in order to neutralize the protective effect of revenue duties on textile imports.

[110] Copy of Purshotamdas's interview to Oriental News Agency, London, 28 July 1933, *PT Papers*, fl. 142.

[111] Lord Derby to Purshotamdas, 27 July 1933, *PT Papers*, fl. 142.

The Government of India too was enthusiastic and all ready "to expedite matters" on "arrival of the Lancashire deputation". The British and the Indian governments, who approved of and kept in close touch with, if not inspired, this move towards unofficial negotiations between Lancashire and India, were, however, very keen to "avoid... any suspicion of official connection" lest "political" considerations jeopardize the move.[112]

The actual negotiations began in India in September 1933. Mody had invited millowners and important businessmen from all over India to join the representatives of the BMOA to form the Indian delegation. From the beginning fear was expressed in British official circles that people of the "Birla group" like D.P. Khaitan who held "extreme political and social views" would make things difficult at the discussions. Before both the Indian and the Lancashire delegations proceeded to Simla (where the Japanese interests were also present) for discussions, preliminary talks in Bombay showed that the Ahmedabad representatives were more interested in capturing India's home market and, therefore, were not particularly impressed by the British promises to aid India in recovering her position in British colonial and Dominion markets.[113]

At the discussions "Mody repeatedly suggested to the Lancashire delegation that they commit themselves to buying more Indian cotton" pointing out that if Japan refused to buy Indian cotton "the Government might be forced to make emergency concessions to Japan in the piecegoods markets to the detriment of both India and Lancashire". The Lancashire delegation was, however, "unable to give a firm commitment" on this count, offering only to recommend "appropriate action" to the British government.[114]

Agreement within the Indian delegation was proving very difficult as well, confirming the fear Mody had expressed from the beginning. Mody, and at his request Joseph Bhore, the Commerce Member,[115] repeatedly campaigned, as it turned out unsuccessfully, with those members of the Indian delegation who did not agree with Mody to "induce them to accept an arrangement with Lancashire, even though it may involve some sacrifice on their part". One vital difficulty was that a section of the Indian delegation, unwilling to lose any bargaining point, was reluctant "to commit themselves at this stage" to any deal with Lancashire without first considering the "arrangement with Japan".[116]

[112] See Viceroy to Secretary of State, 16 August 1933, *L/PO*/51, IOR, London.

[113] See (Illegible) to Edgecumbe, Department of Overseas Trade, London, 9 September 1933, E&O Dept., *L/E/9*/167, IOR, London. In the final agreement one of the clauses, offered to help India secure markets in non-British markets, as we shall see later.

[114] See Chatterjee, "Lancashire Cotton Trade", p. 380 and *ibid*.

[115] Joseph Bhore, the first Indian Commerce Member, was considerably popular with the Indian capitalists.

[116] See Viceroy to Secretary of State, 20 October 1933, *L/PO*/51, IOR, London.

A.O. Cambell, a member of the Lancashire delegation, wrote to Purshotamdas on 23 October 1933: "we have failed to come to an agreement with Indian millowners chiefly owing to a division in their ranks".[117] On 24 October 1933, the Viceroy reported that "discussions between Indian millowners as a whole and Lancashire industrialists (had) broken down". Mody, despite his best efforts, was unable to persuade three of his colleagues (the Viceroy believed that "Birla [was] behind them") to agree to "any concession for Lancashire at all". The Viceroy felt that "to some extent" they were "actuated in their attitude by political motives, but they also (had) a genuine fear that concessions to Lancashire would gravely hurt Indian interests".[118]

Aware "of the utmost importance" of keeping a "friendly Lancashire... so far as constitutional reforms [were] concerned",[119] the Viceroy hoped that Mody would succeed in his efforts to get at least the BMOA to support an agreement with Lancashire. To appease Lancashire, he also sent a private commitment of the Government of India to Lancashire (without obviously consulting any Indian interests) that, as soon as the negotiations with Japan ended, the "Government of India (would) enter into discussion with Her Majesty's Government" to consider how textiles, provisions regarding which were left "indeterminate" in Ottawa, could be brought within the scope of the Ottawa Agreement.[120]

Mody was able to get the BMOA to support an agreement with Lancashire, and on 28 October 1933 the Mody–Lees Pact was signed. The Pact did not have the support of the bulk of the capitalist class.

It would be worthwhile to spell out some of the provisions of the Pact which were to generate much public debate and mutual recriminations in India. Subject to the assumption that the cotton duty was not increased above the present level of $\frac{1}{2}$ anna per lb., it was agreed in the Pact that: (*a*) Indian cotton textile industry was "entitled for its progressive development to a reasonable measure of *protection against the imports of the United Kingdom* yarn and piecegoods". It was also agreed that "under present

[117] *PT Papers*, fl. 142.

[118] Private and Personal Telegram, Viceroy to Secretary of State, 24 October 1933, *L/PO*/51, IOR, Clare Lees, leader of the Lancashire delegation, described Kasturbhai Lalbhai, the Ahmedabad Millowner, as his "most persistent opponent when he was in India". Lees to Zetland, 16 December 1935, *L/PO*/51, IOR, London.

[119] Lancashire interests wanted economic safeguards for cotton textiles and other British industries, included in the White Paper (published by the British government in March 1933 setting out proposals for an Indian Constitution) so that duties in future "shall not be more than are required under conditions of reasonable competition between this country and the Dominion of India". Lees to Derby, 29 August 1933, *L/PO*/51, IOR, London.

[120] See Viceroy to Secretary of State, 24 October 1933, *L/PO*/51, IOR and Joseph Bhore, Commerce Member to Clare Lees, leader of the Lancashire delegation, 25 October 1933, *L/E/9*/167, IOR, London.

conditions... operating in foreign countries, the Industry required a higher level of protection against them than against the United Kingdom" (i.e., while "reasonable" protection against British goods was accepted it was combined with Imperial Preference or what the government liked to call "differential duties"). (*b*) "If and when the revenue position of the country made it possible", the Government of India could remove the surcharge of 5 per cent on imports, imposed in October 1931, without the Indian interests raising any objection regarding the duties applicable to the British imports. (*c*) Some tariff concessions to the UK on cotton yarns and artificial silk were agreed to by the Indian side. (*d*) It was agreed that any advantage which might be arranged for British piecegoods and yarns in Empire and other overseas markets should be extended to Indian goods as well. (*e*) With regard to Indian raw cotton "the Indian side strongly emphasized the urgent necessity of further efforts... to popularise and promote" its use in the UK. The British textile mission gave an "undertaking" that they would "*recommend* effective action" on this count.[121] (*f*) The understanding was to be limited in its duration to the period ending on 31 December 1935. The Pact was signed by W. Clare Lees, Chairman, British Textile Mission and H.P. Mody, Chairman, Millowners' Association, Bombay.[122]

The FICCI President, N.R. Sarkar, declared in the Annual Session of the Federation, following the Mody–Lees Pact, that the Pact lacked "the seal of national approval". One could call it only "a sectional agreement" from which India had "not gained much". There was no quid pro quo in this agreement because, as he put it, "India has agreed to give a part of her market to Lancashire goods (while) Lancashire has given no undertaking to buy any raw cotton from us.... All that she has done is a promise to do her best to encourage the use of Indian cotton...". Though Sarkar accepted that the Pact "marked the first recognition by Lancashire of India's right to protect her industries" (a point often emphasized by its defenders) he did not think it could be called "a valuable economic concession... by any stretch of imagination". Lancashire, with her "narrow and unfair outlook", may not have accepted this principle in the past but it was already "recognised by the Imperial Government and (was) successfully embodied in Indian Tariff Measures".[123] Referring to newspaper allegations accusing

[121] This was one of the *critical* clauses of the Agreement, apart from (a) and (b), and the Secretary of State was advised, while congratulating the Lancashire delegation for the Agreement, to also press upon them the necessity of their using "all (their) influence to stimulate the use of Indian cotton in Lancashire" as they would "appreciate how powerful a lever this was in the hands of the Japanese during the negotiations and the more rapidly the use of Indian cotton increase(d) in Lancashire, the stronger (would) be the position of Lancashire in future negotiations." India Office Note, 20 November 1933, *L/E/9/*167, IOR, London.

[122] Text of the Agreement between the British Delegation and the Millowners' Association, Bombay, 28 October 1933, in *L/E/9/*167, IOR, London, emphasis mine.

[123] N.R. Sarkar, Presidential Speech, 31 March 1934, FICCI, *AR*, 1934, p. 8.

him of participating in secret negotiations behind the country's back, Sarkar added that, though he was in Simla as the FICCI representative when the Pact was being negotiated, he was "from the very beginning... opposed to the Mody–Lees Pact" and he had not given the government "any assurance or any indication that we (presumably the FICCI) shall be silent on the...Pact or that we shall work the White Paper Reforms".[124]

Much harsher criticism of the Pact was to follow once Lancashire began to flex its muscles again and the Pact was incorporated first into the Textile Tariff Act in April 1934 and then into the Indo-British Trade Agreement, supplementary to Ottawa, in January 1935. We shall return to this theme presently.

In the meantime, shortly after the Mody–Lees Pact, the Indo-Japanese trade negotiations drew to an end and in January 1934 an agreement was signed. Essentially, the Agreement led to the duties on Japanese goods being reduced to 50 per cent and a quota being fixed for Japanese exports of cotton piecegoods to India (about 400 million yards) which in turn was linked to a specified quantity of Indian raw cotton being lifted by Japan (about 1.5 million bales).

The reaction of the Indian capitalists to the arrangement with Japan was complex. Though it was generally approved it was seen as a necessary evil. While appreciating the fact that this was the first time the Government of India was allowed to negotiate directly with a foreign government, it was also pointed out that the Indo-Japanese Trade Agreement (IJTA) entailed certain principles prejudicial to Indian commercial and industrial interests, such as the acceptance of an arrangement which was based on "imports of manufactured goods into India in return for the exports of raw materials from which the manufactured goods so imported could be made within the country itself",[125] or, as G.D. Birla argued, on the existence of *unequal exchange* in this arrangement.[126]

Kasturbhai Lalbhai, the doyen of Ahmedabad millowners, pointed out that the Indian textile industry was developing rapidly and, combined with the handloom industry, had already cornered 85 per cent of the domestic market, the total imports being 800 million yards as against indigenous mill production of 3,200 million yards and handloom production of 1,700 million yards. Moreover, he argued, the imports were "bound to dwindle" further "in the near future". Despite this situation, he said, the

[124] Concluding presidential speech, FICCI, *AR*, 1934.

[125] FICCI Resolution, *AR*, 1934, pp. 113–14; and FICCI Resolution, 19 February 1934, FICCI, *Proc. of EC*, 1934, p. 6.

[126] G.D. Birla argued that "the Indo-Japanese pact under which we bound ourselves to purchase 400 million yards of cloth against sales of 15 lakh [1.5 million] bales of cotton (was)... inequitous" because "while the production of 400 million yards of cloth would require the labour of about fifty thousand men the production of 15 lakh [1.5 million] bales of cotton would require the labour of men ten times that number". FICCI, *AR*, 1934, pp. 173–74.

textile industry was forced to accept continuation of Japanese imports, because the Japanese boycott of Indian raw cotton "for over four months" had resulted in India being "driven into practically a corner". Indian textile interests, he explained, willingly accepted this "sacrifice in order that (Indian) agriculturists may prosper... because on (their) prosperity ... depend(ed) the prosperity of the...commercial (and)...industrial community".[127]

H.P. Mody expressed the feeling that perhaps "a better bargain could have been struck in the matter of piecegoods". Japan was given a quota of 400 million yards, while the unofficial advisors to the Government of India had argued for a figure "in the neighbourhood of 250 million yards", despite the fact that "Japanese dependence on (Indian)... cotton" was likely to "continue for some years to come". Also, as Cowasji Jehangir pointed out, 400 million yards was no small quantity—"only in the two years 1929 and 1932 (was) that figure...exceeded". This quota, therefore, could not be called a safeguard against dumping as claimed by the Commerce Member. Nevertheless, Mody, like other Indian capitalists, felt that, given the difficult circumstances and the impact on agriculturists of the Japanese boycott, "a method of coercion unworthy of a great nation", the Indian delegation did their best to "safeguard the interest of this country in the Agreement".[128]

However, the general feeling among Indian capitalists was that in future India should not get driven into such agreements where, while Indian mills complained of excess capacity, India was forced to "enter into pacts with Lancashire and Japan to purchase from them cloth (which India herself) could produce".[129] The solution for the future was seen in the Indian textile industry growing in such a manner that it could consume all the Indian cotton (colonial policies over more than 50 years having prevented such a growth) and also in "more extensive cultivation of suitable and necessary variety of long staple cotton".[130]

It must be noted that despite all these reservations, in general the capitalists preferred the IJTA to the Mody–Lees Pact because the former committed to pick up a specific amount of Indian raw cotton while in the latter Lancashire only promised to try.[131] The capitalists were to return to this theme later.

[127] FICCI, *AR*, 1934, pp. 123–31.

[128] For Mody's views see *LAD*, Vol. III, 14 March 1934, pp. 2193–95; and for Cowasji Jehangir, *LAD*, Vol. III, 16 March 1934, pp. 2349–50.

[129] See G.D. Birla, FICCI, *AR*, 1934, p. 169; and FICCI Resolution, *AR*, 1934, pp. 113–14.

[130] See FICCI, Resolution and Purshotamdas's speech in FICCI, *AR*, 1934, pp. 113–14 and 118–23 respectively. For similar arguments regarding the IJTA, also see, N.C. Ghose, East India Jute Association, Calcutta and Chunilal B. Mehta, Bombay Bullion exchange, FICCI, *AR*, 1934, pp. 127–30.

[131] See, for example, B. Das, Bihar and Orissa Chamber of Commerce, FICCI, *AR*, 1934, p. 131. Das argued that India should press for "what has been endorsed by the Bradford

In the meantime, weeks after the Mody–Lees Pact was signed, Lancashire was already impatient for action by the Government of India on this score. On 21 November 1933 the Lancashire delegation, which had negotiated the Pact, wrote a long private memorandum to Walter Runciman, President of the Board of Trade, England.

In this memorandum, it was pointed out that the Ottawa Agreement did not include "any clear and satisfactory provisions as regards the treatment of British cotton and artificial silk goods in the Indian market". The Bombay Lancashire Agreement (Mody–Lees Pact), it was said, "tacitly" admitted that, if and when the tariff duty on British cotton goods was reduced to 20 per cent, it would be adequate protection for the Indian textile industry. Though it fell short of the Lancashire contention that 15 per cent was adequate protection, nevertheless it was seen to represent a reversal of the earlier attitude among Indians where tariff "demands (were)...limited only by what they (could)... prevail upon the Tariff Boards to recommend, and the Government of India to accept". The Lancashire interests now wanted a new trade agreement between the Government of India and Her Majesty's Government (supplementary to Ottawa) covering cotton and artificial silk goods. They wanted such an agreement "concluded with the least possible delay", before the "favourable atmosphere created" by the Bombay–Lancashire Agreement was "diminished" by the efforts of those who were opposed to this policy. The demand was to conclude such an agreement definitely before the presentation of the next Indian budget in March 1934.

One reason why the Lancashire delegation insisted on a formal agreement was its belief that, once the Government of India accepted the principle of the Mody–Lees Pact and brought the "British cotton and artificial silk goods... within the ambit of the Ottawa Agreement", the extremists among the Indian millowners, who wanted "the whole of their domestic market...(to) be the preserve of their own mills", would see the futility of "agitating for further high protective duties against Lancashire", and fall in line with the BMOA "in dealing directly with (Lancashire) on a reasonable basis".

The Lancashire delegation also made clear that in the proposed Indo-British agreement they would want "immediate steps" taken for reduction of the existing tariff rates and the establishment of "adequate preferential margins" in certain categories of silk and cotton goods, even if the government for revenue reasons was unable to remove the *general* surcharges. Second, they expressed "strong objection" to any quota or "maximum quantitative limitation to imports of British textiles" being imposed as a condition for lower tariffs, as had been insisted upon by some of the Indian

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Chamber of Commerce that Lancashire must at least buy one million bales of cotton from India in the spirit of the Mody–Lees Pact", *ibid*.

millowners during discussions in India.[132] Finally, the Delegation pointed out that the concessions being made in the IJTA rendered their own settlement with Bombay "much less advantageous to Lancashire trade" than was expected. Therefore, they wanted the government to bring in and stress the issue of "third-party interest" and put limits on the operation of the IJTA so that nothing was done which would "disadvantage important British export trades".[133]

The government, in early February 1934, introduced the India Tariff (Textile Protection) Amendment Bill, which sought to incorporate in a Tariff Act the IJTA as well as the Mody–Lees Pact, i.e., the commitment to remove the 5 per cent revenue surcharge on import duties as soon as finances permitted and the extension of the Ottawa principle of Imperial Preference to cotton goods.

The FICCI executive committee immediately issued a protest against the Bill in a resolution which was communicated to the Government of India on 20 February 1934. The resolution criticized the government for fixing on imports from Lancashire a lower rate of duty than that unanimously recommended by the Tariff Board, and for adopting the terms of the Bombay–Lancashire Agreement, despite general protests throughout the country.[134] The resolution further demanded that the government "amend the Bill by excluding that portion thereof which relates to duties and other conditions in the terms of the Bombay–Lancashire Agreement and obtain public opinion thereon, maintaining in the meanwhile at least the present scale of duties on Lancashire imports".[135]

In the Legislative Assembly, in March 1934, B. Das repeated the FICCI criticism and moved an amendment "that the Bill circulated for the purpose of eliciting opinion thereon by 7th July 1934". The various reasons he gave for the need for time to elicit opinion were that the IJTA had not yet been ratified by the house, the Anglo-Japanese negotiations were still going on and were running into trouble, the "anti-national" and "humiliating" Mody–Lees Pact had to be closely studied by the public at large and by the mercantile community all over India, the BMOA, which signed the above agreement, represented an "infinitesmal part" of the industry accounting for only 40 out of 361 mills, the Bill was "designed purely as an Imperial Preference measure" throwing "a little crumb to the henchmen of

[132] Such quotas were insisted upon against Japan and, as we shall see later, even against Lancashire in the 1939 Indo-British Trade Agreement.

[133] Clare Lees, Angus Cambell, S.S. Hammesley, Frank Longworth, Maurice Spilman and Raymond Streat to Walter Runciman, President, Board of Trade, 21 November 1933, and India Office Note, 20 November 1933, *L/E/9/*167, IOR, London.

[134] Kasturbhai Lalbhai and Walchand Hirachand felt that the All India Organisation of Industrial Employees should also register protest at the way in which the government ignored the recommendation of the Tariff Board and recognized the Mody–Lees Pact. See Kasturbhai to Walchand, 13 February 1934, *WH Papers*, fl. 13, pt. I.

[135] FICCI, *Proc. of EC*, 1934.

Lancashire...the Bombay millowners" and the Bill did not protect adequately "the handloom weavers' interest".[136] The Ahmedabad Millowners' Association also asked for the existing Tariff Act to be extended for six months, so that commercial opinion could be ascertained before proceeding with the measures suggested in the Bill, "particularly in view of the opposition from all quarters except Bombay to the uncalled for concessions granted to the United Kingdom by the Bombay–Lancashire pact".[137]

Walchand Hirachand, the President of Maharashtra Chamber of Commerce (also an ex-President of FICCI) was reported to have criticized the Bill, which incorporated the Mody–Lees Pact, on the ground that it sought "to perpetuate the fact that India shall continue to be suppliers of raw material which will be transported to foreign countries, manufactured into cloth and sent back to India to compete with her own industry", including the Bombay industry because for Bombay too "hope now (lay) in going into finer counts".[138] Walchand, hitting out at the Mody–Lees Pact, reiterated Kasturbhai's claim that India could "produce almost all she require(d) except probably Mr. Mody's tie-collar and other apparel" and complained that still Bombay Millowners did not "want to put any restrictions on the quantity and quality Lancashire (would) export to India".[139]

The Tariff Bill, incorporating the Mody–Lees Pact, was passed in April 1934 despite widespread protest from the non-official benches.

H.P. Mody, however, put up a spirited defence of what he called "the much maligned, little understood, grossly misrepresented Mody–Lees Pact".[140] He correctly described how the idea of an informal agreement with Lancashire first surfaced and how capitalists from all over the country were involved in the negotiations. Though the non-Bombay interests later broke off "on other issues", he asserted that everyone accepted the principle that "'*under present conditions*' Indian industry require(d) a larger measure of protection against Japan than against Lancashire". Also, he pointed out that it was not he alone who entered into this agreement with Lancashire and disputed the allegation that the Pact had only "a sectional character". He emphasized that the BMOA was "an organisation of all India character" representing "fully 50 per cent of the spindles and looms

[136] B. Das, *LAD*, Vol. III, 13 March 1934, pp. 2123–32.

[137] Quoted in *Ibid.*, p. 2125.

[138] It was generally argued that the Mody–Lees Pact was generous to Lancashire largely at the cost of centres of textile industry outside Bombay city, as the finer counts of yarn and cloth coming from Lancashire competed more with them than with Bombay which as yet mainly produced the lower counts. See, for example, K.C. Neogy, *LAD*, Vol. III, 14 March 1934, p. 2218 for an amplification of this view.

[139] Walchand quoted by B. Das, *LAD*, Vol. III, 13 March 1934, pp. 2128–29.

[140] *LAD*, Vol. III, 14 March 1934, p. 2198. The attack on Mody and the Pact was really widespread in the country, so much so that as Basudev Chatterjee pointed out even "The Society for the Protection of Hindu Widows in Bengal" joined the attack! Chatterjee, "Lancashire Cotton Trade", p. 404.

in the country", and it was led by very eminent people with a proven record of fighting for the interests of the industry. The Pact, he pointed out, had the support of five ex-presidents (he himself being one of them) of the Indian Merchants' Chamber, which was currently a major critic of the Pact.[141]

Mody went on to defend the acceptance of the principle of "differential duties" between England and other foreign countries (what others called Imperial Preference). He said he fought for this even during the debate on the 1930 Textile Tariff Act and argued that it was the acceptance of that principle then (of duties against Lancashire being fixed at 15 per cent and against Japan and others at 20 per cent) that enabled the later two successive rises of duty against Japan to 50 per cent and then on to 75 per cent (while the duty against Lancashire was 25 per cent), thereby saving the Textile industry from disaster.[142] Further, he pointed out in another context, there was "nothing new in the system of differential duties" because "the country (had) swallowed, without a lump in the throat, a differentiation of as much as 50 per cent" between the UK and Japan in a justified effort to check Japanese imports.[143]

Regarding the duty concession to Lancashire made in the Pact, Mody pointed out that though nominally the duty against Lancashire was 15 per cent, effectively it was 25 per cent because of two successive revenue surcharges of 5 per cent each. The Pact, Mody argued, merely says "keep this duty at the figure at which it exists today, but if the Government of India remove(d) the general surcharge of 5 per cent imposed in October 1931, then...the industry will not raise any objection to the equivalent relief being given to Lancashire". This meant, "we give up merely the right to talk, the right to demand from the Government of India that there shall be an equivalent protective duty because of the removal of the surcharge". This, he argued, could "by (no) stretch of imagination, be regarded as being in the nature of a complete surrender of the country's interests".[144]

Moreover, he argued in January 1935, "the five per cent possible advantage to Great Britain, which was so much criticised, (had) not materialised", nor was it likely to do so that year given the Government of India's finances, "that is to say it (would) not materialise during the currency of

[141] H.P. Mody, *LAD*, Vol. III, 14 March 1934, pp. 2198–99. Cowasji Jehangir also rose to Mody's defence on this point saying that the Pact had the support of the influential committee members of the BMOA, of which Mody was only the "paid Chairman". He asked "if Mr. Mody is to be called a traitor, a man who has sold the interests of his country, why is it that my Honourable friends will confine these complimentary terms merely to... (Mody) and not to Sir Ness Wadia and Sir Naoroji Saklatwala" who as members of the committee "were just as responsible for this Agreement...?" *LAD*, Vol. III, 16 March 1934, p. 2351.

[142] *LAD*, Vol. III, 14 March 1934, pp. 2200–2201.

[143] *LAD*, Vol. I, 30 January 1935, p. 213.

[144] *LAD*, Vol. III, 14 March 1934, p. 2200.

the Indo-Lancashire Agreement".[145] On the other hand, he said, the use of Indian cotton in Lancashire had increased "to a much larger extent than...ever...before, and inside of one year the quantity taken by Great Britain (had) more than doubled", having gone up to nearly 350,000 bales and was likely to go up in the near future to 0.5 million bales. He added that while Japan was willingly conceded a large market of 400 million yards, at considerable cost to Indian industry, on the grounds of their buying Indian raw cotton "when it (came) to question of Great Britain's takings of India's raw products" it was argued that she was "bound to take them because she (could) not get them elsewhere".[146]

Perhaps the most important argument Mody made in favour of the Pact related to the "*the political gains* which...flowed...from this Agreement" in terms of the change in attitude of Lancashire, which counted "a great deal in the politics of Britain" as it commanded "a solid block of 70 members in the Houses of Commons".[147] Mody pointed out that, as a direct result of the Mody–Lees Pact, Manchester leaders in a dramatic shift withdrew their original memorandum to the Joint Parliamentary Committee (the Select Committee appointed to look into questions of constitutional advance being discussed in the Round Table Conference) and "substituted it by a fresh one withdrawing their demand for safeguards...".[148]

The appearing of the Manchester representatives before the Joint Select Committee had been deliberately delayed (under the persuation of the Lancashire moderates and British government representatives) till after the Mody–Lees Pact. A move which paid dividends, and the India Office was to note with great satisfaction the "striking illustration of the new spirit" caused by the Pact "when the Manchester Chamber of Commerce gave evidence before the Joint Select Committee".[149] The Indian members of the Joint Select Committee, such as Phiroze Sethna, Ghuznavi and M.R. Jayakar, were also surprised by the change of attitude of Lancashire and "actually congratulated them on the tone of memorandum which they presented".[150] Raymond Streat, Secretary, Manchester Chamber of Commerce, summed up the role of the Mody–Lees Pact in restraining the Lancashire "die-hards": "nothing in the world has ever been more clear

[145] In fact the government was able to reduce the duty on some type of cotton textiles imports by 5 per cent in June 1936, through the recommendations of a special Tariff Board. See, fn. 169.

[146] *LAD*, Vol. I, 30 January 1935, pp. 215–17 and also Vol. III, 14 March 1934, p. 2202.

[147] *LAD*, Vol. III, 14 March 1934, p. 2202.

[148] Mody's Autobiography, Manuscript, Chapter 2, pp. 10–11. *H.P. Mody Papers*, Misc. 5.

[149] *Ibid*. India Office Note, 20 November 1933, *L/E/9/167* and Mody to T.A. Stewart, 22 April and 4 May 1934, *H.P. Mody Papers*, Correspondence with T.A. Stewart. See also Basudev Chatterjee, who accepts and documents the positive political fallout of the Mody–Lees Pact, "Lancashire Cotton Trade", pp. 381ff.

[150] India Office Communication to Mody quoted in Mody to Stewart, 23 April 1934, *H.P. Mody Papers*, Corresp., with T.A. Stewart.

than that Lancashire would have gone over bag and baggage, horse and foot, to the right-wing camp but for the Mody Agreement.... The consequences of that in Indian and English politics would have been formidable in the extreme."[151]

There was clearly some weight in the defence of the Mody–Lees Pact as argued by Mody. As we saw above, many of the capitalists, some very close to the Congress, were associated with the negotiations in the early stages. Purshotamdas had at that stage thought that Mody was "looking at the question from the Indian point of view". Even G.D. Birla, the man accused of engineering the withdrawal of the support of capitalists from other parts of the country to the Pact, conceded that the Pact was "concluded with good intentions", though he thought later developments showed that it was a "great blunder".[152]

It would be difficult to argue that the Pact was either intended as or objectively turned out to be a "sell out" to the British or to Lancashire. Major sections of the Indian capitalists distanced themselves from it either on the ground that the bargain struck in the Pact was not good enough or perhaps because they were more sensitive to the political fallout in India of a pact by Indian capitalists with Lancashire, given the general hostility to Lancashire's negative role in Indian economic and political history which dated back to the second half of the nineteenth century, and also given the appreciation, as Birla put it, that "Indian public opinion (was) not as sympathetic as it used to be a few years back towards the Indian industries".[153] Further, it was possible that these capitalists felt what Mody himself angrily pointed out to the Lancashire people (once they began to make demands beyond the Pact) that, had there been no Mody–Lees Pact, "Indian industrialists", taking advantage of the findings of the 1932 Tariff Board which recommended no Imperial Preference, "would certainly have fought against such a heavy differentiation (of 50 per cent) in favour of Great Britain" that currently existed and they "would have asked for, and probably obtained, a much higher rate of duty against British textiles".[154] The criticism of the Pact picked up a really sharp edge mainly due to the demands that Lancashire started to make *after* the Pact and the manner in which the government incorporated several of them into Tariff Acts and Agreements with scarce regard for Indian opinion. It is to this latter theme that we shall now revert.

As we saw above (p. 238), within weeks of the Mody–Lees Pact, Lancashire was clamouring for action by the Government of India to incorporate the Pact into an agreement with the British government and urgently implement its recommendations. Not satisfied with the Tariff Act passed

[151] Streat to Mody, 9 November 1934, *H.P. Mody Papers*, Subject File 10.
[152] G.D. Birla to Purshotamdas, 14 November 1934, *PT Papers*, fl. 126.
[153] G.D. Birla to Kasturbhai Lalbhai, 14 November 1934, *PT Papers*, fl. 126.
[154] Mody to Streat, 19 November 1934, *H.P. Mody Papers*, Sub. fl. 10.

in April and the Government of India's assurance to implement the critical clause of the Pact regarding the removal of the 5 per cent tariff surcharge, as soon as the revenue situation permitted such a move, on 1 November 1934 a powerful Lancashire Deputation (including virtually all the leaders of the British textile industry), waited on Walter Runciman, President of the Board of Trade in England. Expressing "profound dismay" at the "prolonged delay" at implementing the promise made to the Lancashire delegation (which negotiated the Mody–Lees Pact) that "Government of India would enter into discussion with Her Majesty's Government" regarding a trade agreement covering cotton goods (supplementary to Ottawa) as soon as the Indo-Japanese negotiations were concluded, the Deputation made essentially the following demands, which they wanted the proposed agreement to incorporate.

(*a*) "Import duties on UK cotton and artificial silk goods...would be fixed from time to time at levels which would be lower than those applicable (to) foreign countries."

(*b*) A machinery to be devised whereby the UK government "could raise with the Government of India the question of re-examining the levels of duty whenever they were able to show that these levels were unduly high."

(*c*) "There should be a precise expression to these principles in the form of a definite stipulation of maximum rates of duty and minimum margins of preference."

Also, the Deputation expressed the conviction that the rate of duty of 11 per cent represented a fair protection to the Indian Textile industry giving Lancashire "opportunity of reasonable competition", while the Mody–Lees Pact had agreed to a minimum duty of 20 per cent after removal of the 5 per cent surcharge.[155]

[155] See copy of Report on the Lancashire Deputation to President Board of Trade, *PT Papers*, fl. 126; Summary of Deputations' demands in FICCI, *Proc. of EC*, 1934, pp. 18–19 and Raymond Streat to H.P. Mody, 9 November 1934, where he explained the Deputation's position and the pressure of the "rank and file" in Lancashire for a duty lower than the 20 per cent "unilaterally" offered by the Indian side in the Mody–Lees Pact. *H.P. Mody Papers*, Sub. fl. 10. See also Streat's comments on an India Office Memor. written by Croft. Regarding the 50 per cent differential duty in favour of Lancashire incorporated in the 1934 Tariff Act, which was claimed as meeting the first clause of the Mody–Lees Pact, Streat pointed out, "It would be no benefit to Lancashire if she were guaranteed the whole of the market for *imported* cotton goods (through differential duties) if this market (was) allowed to contract to vanishing point" through import substitution. (See pp. 227ff. above). He added "Lancashire maintains that a duty of 25 per cent on cotton goods does not allow her to compete on fair terms with local industry". Streat also disagreed with the government claim that the revenue position as yet did not justify the removal of the 5 per cent surcharge accepted by the Indians in the Pact. He felt that in fact the government had missed the opportunity in the 1934 budget "of giving effect to the (above) clause in the agreement to which (Lancashire) attached the *greatest importance*". The next budget he argued would "provide the last chance of giving effect to this important provision in the Pact *before the date of its expiration*". 10 December 1934, *L/E/9/167*, IOR, London, emphasis mine.

This new stance of Lancashire had an electric effect all over the country. G.D. Birla, dramatically proclaimed that with the Mody–Lees Pact, "Lancashire has now tasted the human blood and they are no longer satisfied with Mody–Lees Pact". Their demand for "reduction of tariff to 11 per cent" would mean the "signing of a death warrant of the Indian Mills". Also, through the new demand "fiscal autonomy (was) proposed to be thrown to dogs".[156]

Kasturbhai Lalbhai warned Mody that it was "not merely the Ottawa Agreement or Mody–Lees Agreement which the Lancashire industrialists are pressing upon their Government and through them on the Government of India, but they are keen to obtain further concessions". The situation he said needed to be "handled with tact" and the least that could be done to prevent "serious trouble" was to press the Government of India to take the Indian commercial community in confidence before concluding any Indo-British trade agreement.[157] The government, not unexpectedly, did not heed this advice, as we shall see presently.

Mody too was "extremely worried" by the Lancashire Deputation's memorandum to the Board of Trade. Not only had various chambers of commerce, like the Indian Chambers of Commerce, Calcutta and the Ahmedabad Millowners' Association, started raising an alarm but even the committee of the BMOA was beginning to feel that "Lancashire's demands (had) gone far beyond what (was) permissible under the Mody–Lees Pact".[158]

Mody in a personal note to Joseph Bhore, the Commerce Member, explained his position unequivocally—"My opinion briefly is that Lancashire cannot possible ask at present for a reduction of duty except as laid down in the Agreement (Mody–Lees) and that the procedure she is suggesting for a reconsideration from time to time of the tariffs against Great Britain amounts to a complete negation of the Fiscal Autonomy Convention." He added, "from what I know there is going to be a great deal of agitation against this move...".[159] Mody also wrote to Raymond Streat making much the same points and expressing his distress over the "extremely unhappy situation...created by the recent activities of the diehards in Lancashire".[160]

The FICCI Executive Committee wrote to the government on 6 December 1934, inviting attention to the demands of the Lancashire Deputation

[156] G.D. Birla to Kasturbhai Lalbhai, 14 November 1934 and to Purshotamdas Thakurdas, 14 November 1934, *PT Papers*, fl. 126.

[157] Kasturbhai Lalbhai to Mody, 6 November 1934, *H.P. Mody Papers*, Sub. fl. 10.

[158] T. Maloney, Secretary, BMOA to Raymond Streat, 23 November 1934, *H.P. Mody Papers*, Sub. fl. 10. Maloney also pointed out that the Lancashire argument that the demand for 11 per cent was only a bargaining point to get the Government of India to reduce the existing duty to 20 per cent (the figure agreed to in the Pact) was not likely to cut much ice in India. *Ibid.*

[159] Mody to Bhore, 20 November 1934, *H.P. Mody Papers*, Sub. fl. 10.

[160] Mody to Streat, 19 November 1934, *H.P. Mody Papers*, Sub. fl. 10.

which, it was said, "amounted to an utter disregard not only of the Fiscal Convention but also of the probability of the goodwill between the two countries".[161] In a statement issued on 20 December 1934 FICCI pointed out that they had "consistently been opposed to the principle of the Mody–Lees Pact and they (were) aware of Government's promise to Lancashire to implement this Agreement at a later date". However, it was added, even "assuming...that the Mody–Lees Pact did not prejudicially affect the economic interests of this country", an agreement based on the Lancashire Deputation's demands "cannot by any stretch of imagination be considered to follow from the terms of the Mody–Lees Pact. The Mody–Lees Pact (had)...proved to the painful experience of (the) Committee *the thin end of the wedge* in that it...enabled Lancashire to push further its unconscionable demands." Further, it was said that if the Deputation's demands were conceded it would have "the only effect of the industrial and commercial policy of this country being made subject at all times to the veto of the United Kingdom in so far as the development of any indigenous industry (had) in the opinion of the UK Government a prejudicial effect on British trade or industry".[162]

The Federation also expressed considerable alarm at reports that the Government of India was not only negotiating an agreement with the British government but that such an agreement had already been reached. They were afraid that the agreement might have been based on the demands of the Lancashire Deputation. Also they strongly criticized the government for (in spite of "repeated requests" by FICCI) not taking "the Indian commercial community into consultation in the process of negotiating such an agreement", while the President of the Board of Trade was "reported throughout the process of these negotiations to have been in consultation with the commercial interests affected in the UK".[163]

The Indo-British Trade Agreement (Supplementary Agreement to Ottawa) was signed on 9 January 1935 and announced the next day. The Agreement, as feared by FICCI, incorporated the Mody–Lees Pact as well as some of the most pernicious demands of the Lancashire Deputation of November 1934.[164]

[161] FICCI, *Proc. of EC*, 1934–35, p. 17.

[162] FICCI, *Proc. of EC*, 1934–35, pp. 18–19, emphasis mine.

[163] *Ibid*. See also FICCI, President, Kasturbhai Lalbhai to Joseph Bhore, 5 November 1934, *PT Papers*, fl. 126, for a similar protest.

[164] Some of the important terms of the Agreement were

(*a*) while the need for protection to Indian industry against all imports from all sources was accepted it was said that conditions in India and the rest of the world "might require a higher level of protection against foreign than against United Kingdom imports".

(*b*) Protection to be given only after due enquiry by a Tariff Board and in accordance with the principles of "discriminating protection" laid down by the 1922 Fiscal Commission.

A detailed memorandum was sent by FICCI to the Commerce Department, Government of India, criticizing the Agreement on 24 January 1935, days before the Agreement was to be debated in the Legislative Assembly. Steps were also taken by FICCI to campaign with various political groups in the Legislative Assembly acquainting them with the views of the commercial community on this question.

The FICCI Memorandum repeated the arguments that had been made against the Lancashire Deputations' demands and once again took "strong exception to the refusal of the Government of India to take into confidence the Indian commercial and industrial interests while the trade agreement was under negotiation". Further, the memorandum pointed out that, apart from conceding the principle of Imperial Preference, the Agreement restricted "the powers of the Tariff Board to give adequate protection to an indigenous industry", thus negating India's fiscal autonomy. The Agreement also incorporated in an article "a preposterous demand of the British industries securing to them the right of interference in the internal administration of the country, as the article provided that under certain circumstances on the request of His Majesty's Government, the Government of India undertook to reopen the question of protective duties on certain protected industries". No industry, it was said, would ever flourish if it was to be in "constant dread of the protection given to it being altered from time to time at the instance of its British rivals".[165] Lastly the memorandum

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(*c*) Protection given to any industry "should not exceed what was necessary to equate the prices of imported goods to the fair selling prices of similar goods... in India".

(*d*) "When the question of the grant of substantive protection to an industry is referred to the Tariff Board, Government of India would afford full *opportunity to any industry concerned in the United Kingdom to State its case and answer cases presented by other interested parties.*"

(*e*) "In the event of any radical change in the conditions affecting protected industries during the currency of the period of protection, the *Government of India would, on request of His Majesty's Government, or of their own motion, cause an enquiry to be made as to appropriateness of existing duties.*"

(*f*) The British government would "give *consideration*" to the steps that might be taken to develop the import from India of raw or semi-manufactured materials used in the manufacture of articles which are subject to differential import duties in India. In this connection they particularly undertook to popularize the use of Indian cotton and to continue the duty-free entry of Indian pig-iron, so long as the differential duties on British steel continued on their existing margin in India.

See, Adarkar, *Indian Fiscal Policy*, pp. 549–50. With reference to clause (*d*) Adarkar also pointed out that under the Ottawa agreement the Dominions of Canada, Australia and New Zealand bound themselves to revising their tariffs to enable "orderly economic development of the empire on a cooperative basis" and to granting "full rights of audience to the UK producers before their respective Tariff Boards". However, following a "great uproar" in these countries, within a few years the provision was dropped. In case of the Indian agreement at Ottawa this provision was not included probably "in view of the practical control of HMG over India's fiscal policy". The supplementary agreement of 1935 included this provision which had been rejected by Dominions. *Ibid.*, p. 549.

[165] Mathuradas Vissanji also argued how "investment in new and promising industry

pointed out that "Articles 5 and 6 (of the agreement) did not give any quid pro quo to the Indian products in the British market for definite concessions given by the Indian government to British interests. There was thus a complete absence of any material reciprocity in the agreement, which was a basic principle in negotiating the Indo-Japanese trade treaty."[166]

Kasturbhai Lalbhai in his presidential speech at the 1935 FICCI annual meeting pointed out the danger in the "harmful innovation introduced" in the Agreement "that the margin of protection between the United Kingdom goods and the foreign goods shall not be altered so as to be detrimental to the interests of the United Kingdom goods". This limited India's bargaining power vis-à-vis the foreign countries because if it was "found necessary to concede a bigger market to any foreign country (it could) only be done by sacrificing India's share of the market". Kasturbhai added: "the most objectionable feature of the Agreement is that the United Kingdom industrialists can object to the continuance of protection to any of our industries at any particular level at any time".[167]

When the Agreement was brought to the Assembly for discussion it faced severe criticism from Indian capitalists. Sami Vencatachelam Chetty (representative of Indian Commerce from Madras in the Legislative Assembly) moved an amendment demanding that the Agreement be terminated forthwith. He argued that the election in the commercial constituencies, where attitude to Ottawa was the election plank, showed that the commercial and industrial opinion of this country was decidedly against the Ottawa Trade Agreement.[168] In this situation it was "monstrous that this Government should add to it this Trade Agreement as Supplementary" to Ottawa. He disagreed with the government position that the Agreement only crystallized the existing practice and quoted heavily from statements by Clare-Lees to show how Lancashire herself saw the Agreement as a substantial advance in its favour. Also, he pointed out that in the Annexure to the Agreement a "definite promise" was made to reduce the duties on British cotton imports into India to 20 per cent while the existing duty was 25 per cent.[169]

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would be effectively discouraged" by this provision, *LAD*, Vol. 1, 29 January 1935, p. 193. Also see Kasturbhai Lalbhai, FICCI, *AR*, 1935, p. 16.

[166] FICCI, *Proc. of EC*, 1934–35, pp. 20–21.

[167] FICCI, *AR*, 1935, pp. 15–16.

[168] Babu Baijnath Bajoria, Marwari Association, pointed out that "the defeat of Sir Shanmukham Chetty at the last election" showed the strong feeling in India against the Ottawa agreement which agreed to Imperial Preference. *LAD*, Vol. I, 24 January 1935, p. 166.

[169] S.V. Chetty, *LAD*, Vol. I, 29 January 1935, pp. 154–63. However, "financial and political considerations" had made it impossible for the Government of India to reduce the cotton duties either "under the Lees–Mody Pact or the Supplementary Agreement". They were finally reduced by 5 per cent for some categories of cotton goods, and only in June 1936 by government notification, based on the recommendation of a special tariff board. More on this later (see pp. 258ff.). See Chatterji, "Lancashire Cotton Trade", pp. 417, 447; and Commerce Member, *LAD*, Vol. III, 27 March 1939, pp. 2828–29.

The other major criticisms of the Agreement made by the Indian capitalists in the Assembly were: first, that Indian commercial interests were not taken into confidence in negotiating this Agreement, unlike the IJTA where Indian non-officials were "at least nominally associated", or even the Ottawa Agreement which had non-officials "no matter how selected" in the Indian delegation. On the other hand, "the corresponding British interests were not only consulted but allowed practically to dictate the terms of this treaty".[170]

Second, the Agreement accepted the principle of Imperial Preference and left virtually no scope for "negotiating special treaties" with foreign countries to strike a "bargain" favourable to India. Also, it made "general principles" out of the recommendation of a sectional agreement (the Mody–Lees Pact) which itself was severely criticized by the commercial community in India.[171]

Third, the Agreement made the question of protection to Indian industries "the subject matter of discussion with a rival party, a party who does not want to protect Indian industries".[172] British industries could now, through the British Government, "initiate Tariff Board enquiries wherever their interests (were) at stake".[173]

Fourth, the Agreement had no quid pro quo. Britain only "made promises" of making efforts to consume more Indian raw materials, while the Government of India gave several definite "undertakings" which would clearly benefit British goods. It was suggested that if the commercial community had been consulted they would have effected a much better bargain, as they did in the case of the IJTA, where they insisted on Japan agreeing to lift a specific quantity of Indian raw cotton.[174]

H.P. Mody also criticized the government for not taking "Indian commercial opinion into their confidence" which, he said, contributed to the atmosphere of suspicion, prejudice and misunderstanding.[175] He defended, as before, the principle of differential duties but asserted that every single

[170] See, for example, Baijnath Bajorla and Mathuradas Vissanji, *LAD*, Vol. I, 29 January 1935, pp. 165, 167; 189–90, respectively.

[171] Bajoria, Vissanji and B. Das, *LAD*, Vol. I, 29 January 1935, pp. 163, 193 and 173 respectively.

[172] Chetty, Bajoria and Vissanji, *LAD*, Vol. I, 29 January 1935, pp. 163, 166, 191–92 respectively.

[173] Bajoria, *LAD*, Vol. I, 29 January 1935, p. 166.

[174] See Bajoria, B. Das and Vissanji, *LAD*, Vol. I, 29 January 1935, pp. 166–67, 175 and 191, 193 respectively.

[175] Mody, *LAD*, Vol. I, 30 January 1935, p. 209. He further pointed out that if during the negotiations for the IJTA Japan had been offered the quota of 400 million yards without consulting Indian commercial interests "there would have been a howl from one end of the country to the other", but since they were consulted they saw the difficulties of the situation and agreed to it. It was "a thousand pities that Government of India should not have appreciated the import of that proceeding". *Ibid.*

clause of the Agreement had to be "read in conjunction with the fundamental condition that the Government of India's undoubted right to protect industries to the full measure that (was) required" would not be "challenged by anything that was said" in any article of the Agreement, even though "the words used (could) create a little misconception".

Mody also argued, somewhat defensively, a position similar to the government stand, that the Agreement had not brought in any new measure which did not already exist "in practice". For example, Imperial Preference or "differential duties" were already operating in India. Even the "right of hearing" in the Tariff Board to British industrial interests, which was being so strongly objected to, Mody said, had been occurring in India, in practice though not as a formal right, and "not only British but Japanese interests [had] appeared before the Tariff Board, time and again, to represent their view points", without the practice being "challenged". Similarly, while accepting that "the more important provision... that at the instance of the British government the Government of India (could) cause an inquiry to be made" was a "right newly conceded", he maintained that in practice the Indian government was "notorious" for receiving representation from the British government and sometimes even other foreign governments. Mody went on to point out the various advantages of the Mody–Lees Pact and urged those who had so readily accepted the IJTA, with all its shortcomings, not to "oppose this Treaty which merely embodies the present practice and clarifies the relations between the two countries".[176]

Mody's arguments, however, were not found convincing. For example, Kasturbhai Lalbhai, the President of FICCI, retorted: "Those who argue that the Indo-British Trade Agreement is to be short-lived or those who say that it gives Lancashire no more than what it already enjoyed *ignore the real point at issue*. It is *not* so much the *concessions themselves* which are to be deprecated but the fact that attempts are being made to convert these concessions into basic *principles* of the Tariff Policy."[177] Similarly, Mathuradas Vissanji pointed out that, while Mody and Cowasji Jehangir were giving "full credit to Great Britain for her sympathy towards India" insofar as she lifted 342 thousand bales of cotton this year as compared with 142 thousand bales last year, they "conveniently forgot" that right till the previous month Indian cotton was "ruling something like Rs 10 to 15 cheaper" than American cotton or other substitutes. The test of British sympathy, he said, would come in the future when this price disparity disappears.[178]

The Assembly eventually threw out the Agreement by a majority (68 for and 56 against) with the Congressmen[179] and the Indian capitalists who

[176] H.P. Mody, *LAD*, Vol. I, 30 January 1935, pp. 213–17.
[177] FICCI, *AR*, 1935, pp. 15–16, emphasis mine.
[178] FICCI, *AR*, 1935, pp. 114–16.
[179] Pandit Govinda Ballabh Pant, the Congress leader in the Assembly made much the

followed the FICCI leadership voting for this decision and Mody and Cowasji Jehangir voting against.[180] Vissanji clarified that out of the 56 who supported the government about 36 were officials and nearly 10 belonged to the European group, leaving only 10 elected Indians who were in favour of the Agreement, as against a solid block of 68, who voted, "absolutely on non-communal lines" against the Agreement. He also pointed out that the Agreement was signed on 9 January 1935 while "the Assembly session was to commence on 21st January". He argued that the government had shown "undue haste" in getting the Agreement through without consulting the Assembly because "Great Britain realised that in the elections the Congress candidates would come out successful and they anticipated that if they delayed the matter and consulted the Assembly.... They (would) not be able to get what they wanted at the hands of India."[181]

In a resolution, FICCI offered "its felicitations to those Members of the Assembly and the parties that lent their support to the stand taken up by the Federation in recording their decisive verdict against the Government of India" by rejecting the Agreement, and also issued a veiled threat to "British Commercial and industrial interests that any agreement arrived at over the head of the Indian commercial community (was) likely to do them greater harm than good".[182] India could then, for example, seek "business connections with other countries" in areas where "in ordinary course" she dealt with Great Britain.[183]

Despite the verdict of the Legislative Assembly, the government went on to certify the Agreement and it remained in force till 31 March 1939, when the new Indo-British Trade Agreement came into operation, following the denunciation of the Ottawa Agreement in 1936.

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same points as the dominant section of the Indian capitalists in his critique of the Agreement. See *LAD*, Vol. I, 30 January 1935, pp. 222–26.

[180] *LAD*, Vol. I, 30 January 1935, p. 249.

[181] FICCI, *AR*, 1935, pp. 114–16.

[182] FICCI, *AR*, 1935, p. 114.

[183] M. Vissanji, *ibid.*, pp. 116–17.

EIGHT

Tariffs, Trade and Industry III: 1936–39

I. Indo-British Trade Negotiations, 1936–39

The Ottawa Agreement was denounced by the Assembly in March 1936. Despite the doubts or hesitation expressed in the India Office, the commitment given by Joseph Bhore, the Commerce Member, that the Assembly vote would not be disregarded was allowed to prevail.[1] Notice was given on 13 May 1936 for the termination of the Agreement after six months and preparations for a new agreement started in right earnest.

The Secretary of State warned the Government of India that the proposed new agreement should not be wrecked by "the same forces which brought about the denunciation of the existing (Ottawa) Agreement."[2] The Government of India, aware that "the Ottawa agreement was condemned, not so much on merits but because Indian commercial opinion believed it had not been consulted", was not to repeat this mistake. They were to ensure that this criticism was not "repeated" by concluding the agreement "with the knowledge and under the advice of representations of non-official advisers". By doing so it was hoped that the Agreement would, "despite Congress opposition", receive the approval of the Assembly.[3]

However, given the "present temper" in the country, it was correctly anticipated that the government "could not even rely on the active support of moderates, such as Mody and Jahangir"[4] nor would their support

[1] Secretary of State to Government of India, Commerce Dept., 9 March 1935 and India Office Note, 19 March 1935, *L/E/9/1223*, IOR; Viceroy to Secretary of State, 11 April 1936, *L/E/9/1124*, IOR, London.

[2] Secretary of State to Viceroy, 18 June 1936, *L/E/9/1124*, IOR, London.

[3] Government of India, Commerce Department to Secretary of State, 26 June 1936, *L/E/9/1124*, IOR, London.

[4] Government of India, Commerce Department to Secretary of State, 29 May 1936, *L/PO/51*, IOR, London.

really count any more. The government in its choice of non-official advisers could no more afford to bypass FICCI or "PT, Birla and Company" as they called it. In fact "tactical subtlety" was seen in "associat(ing) these gentlemen" with the Agreement, because that would "doubtless... mitigate opposition in the legislature".[5]

On 22 July 1936, just when FICCI was beginning to get restive, the Government of India wrote to FICCI informing them that "in the preparation of their preliminary proposals" for the new agreement they would associate with themselves "a panel of unofficial advisers representative of commerce, industry and agriculture" and that the representatives of the two governments including the Indian unofficial advisers would establish personal contact in London where "the final stages of the discussion would be concluded".[6] Also, the government suggested, "as a matter of convenience the existing arrangement should be taken as a starting point and views should be offered indicating the directions in which modifications are required in the existing trade agreement (i.e., Ottawa Agreement) between the two countries".[7]

The Federation from the very beginning, adopted a stiff bargaining position. In a series of letters to the government FICCI put forward the following conditions and demands. First, the selection of non-official advisers was to be done by inviting "representative organisations to elect representatives" and not by government nomination, and these representatives were to be treated as full delegates, not merely as "unofficial advisors". Also, it was demanded that, considering the "all India interest represented by the Federation", it "be asked to send not less than three representatives". Further, referring to the Indo-Japanese Trade negotiations where the procedure of unofficial advisors was used, the FICCI President pointed out:[8]

> There is a difference between negotiations with Japan and those with the UK. In the former case the (government) officials could be fully trusted by the public to do their best in the interest of the country. In the latter case... there are grave and honest suspicions in the mind of the public that our government are unduly influenced by Her Majesty's Government for the benefit of the UK. I therefore venture to think that... properly elected representatives of Indian interests should be treated as the real delegates of the country.

[5] India Office Note for Secretary of State, 19 March 1936 and 14 July 1936, *L/E/9/1124*, IOR, London. PT refers to Purshotamdas Thakurdas.

[6] FICCI, *Proc. of EC*, 1936, pp. 19–21.

[7] Quoted in FICCI Circular to All Member Bodies, 30 July 1936, FICCI, *Corresp.*, 1936, p. 104.

[8] See D.P. Khaitan, President, FICCI to Zafrullah Khan, Commerce Member, 11 August 1936, FICCI, *Corresp.*, 1 August 1936, *Proc. of EC*, 1936–37, pp. 21–26.

However, the FICCI attitude softened once the government ignored the BMOA and people like H.P. Mody and nominated the FICCI stalwarts Purshotamdas, G.D. Birla and Kasturbhai Lalbhai as three of the seven unofficial advisors, with E.C. Benthall being the only other advisor representing commerce and industry. (The remaining three advisors consisted of representatives of agriculture, one each from Madras, Punjab and U.P., a Hindu, a Sikh and a Muslim respectively.) Moreover, Purshotamdas was appointed Chairman of the unofficial advisors. The Federation agreed that "the selection made was truly representative" and accepted the Commerce Member's reasoning for making direct nominations of unofficial advisors instead of inviting commercial bodies to elect their nominees, though with the firm proviso "that it would not be made a precedent for future occasions", and with considerable hesitation on several other counts.[9]

Second, FICCI demanded that the negotiations for the trade agreement be concluded in India and not in London. In London, it was claimed, the Indian delegation "would be subject to influences not conducive to impartial examination of problems before them" and the representatives of commercial, industrial and other interests "would find it difficult to be in constant touch with their organisations in India". More important, it was said, "It should not be forgotten that a Trade Treaty between the UK and India is necessary *in the interest of the former* in as much as that country has to draw about Rs 80 crores [800 million] per year (as remittances or India's

[9] Commerce Member to FICCI, 4 September 1936, FICCI, *Proc. of EC*, pp. 24–26; and President, FICCI to Commerce Member, 7 September 1936, FICCI, *Corresp.*, 1936. G.D. Birla on receiving a direct invitation from the government had immediately replied asking them to consult FICCI because, he said, "Indian trade desires that its representatives should be of its own choice". He wrote to Purshotamdas reminding him how the government had appointed Chetty as representative of trade at Ottawa without FICCI's approval and said, "This time by selecting you, Kasturbhai and myself they may be selecting the right persons but *principle* is more important than personalities. If we help the Government in breaking the principle we would be making the Federation utterly impotent. This time the choice may be quite good, but next it may be the worst possible and it would not then lie in our mouth to say that the representatives were not accredited ones." Also, he added, "by accepting the invitation over the head of the Federation we would be causing a tremendous demoralisation among the lower ranks who would then without any hesitation start convassing for posts". Birla therefore suggested that the FICCI President go to Simla and pursuade the government to accept FICCI's position. However, eventually after mutual consultations the FICCI leaders felt that in view of the nature of government nominations which were rather favourable to FICCI, and considering that if the government were to ask various commercial bodies to elect and send their members then the Associated Chamber (the apex European Chamber) would be asked to send as many representatives as FICCI and the government could also be forced to ask "half a dozen other bodies, as they did in the case of Indo-Japanese Trade negotiations", it would be "in the interest of the country" not to press the point. See G.D. Birla to Purshotamdas, 18 August, 25 August and 29 August 1936, Purshotamdas to G.D. Birla, 27 August 1936 with a draft letter to Stewart of the Commerce Department enclosed, Purshotamdas to D.P. Khaitan, FICCI, President, 27 August 1936, Kasturbhai to G.D. Birla, 27 August 1936, *PT Papers*, fl. 181(1).

sterling obligations) from the latter. It is in the fitness of things, in the circumstances, that UK's representatives should come to India to negotiate a treaty."[10]

Third, regarding the government suggestion that the "existing agreement be taken as a starting point and that views be expressed in the form of modifications thereof", FICCI found it impossible to do so. In its long and detailed communication dated 24 August 1936 to the Commerce Department, Government of India, FICCI pointed out that the Ottawa Agreement as well as the Supplementary Indo-British Trade Agreement were inequitous and "vitiated by radical blunders" and "the Indian Legislative Assembly (had) denounced both of them".[11] There was therefore no question of taking them as the starting point.

Fourth, showing a keen appreciation of India's changing balance of payment situation as a result of changes in her balance of trade, composition and direction of trade, etc., during the Depression period, and of how it was necessary for Britain to alter her policies if India was to continue the flow of remittances to Britain, FICCI in its letter of 24 August 1936 to the government, made out a detailed argument. It was said that before negotiating a trade agreement with Britain it was necessary to enquire into India's trade relations with other countries. "In former years, India's export trade with countries other than the United Kingdom was in a strong position and she used to get a substantial trade balance with which the payment for the invisible imports from the United Kingdom", and the "Government of India's payment of home charges" used to be met. In addition India could also import precious metals. Since the setting in of the Depression in 1929–30, a trend of "intense economic nationalism" started in the world and each country was trying through bilateral arrangements "to adjust her foreign trade with a view to minimise her balance of international indebtedness". This resulted in "the favourable trade balances which India possessed in the past with other foreign countries (getting) minimised in some cases, while in some other it disappeared and in some cases, an adverse balance against India" emerged. In this situation massive "exports of gold furnished the only method for supplying the margin between the favourable balance of trade in merchandise and the amount of balance needed to enable the UK to draw her 'dividends'".

However, these gold exports could not be relied upon to continue indefinitely as, apart from the damage they did to the monetary system in India,

[10] FICCI to Government of India, Commerce Department, 4 August 1936, FICCI, *Corresp.*, 1936; and FICCI, *Proc. of EC*, 1936, pp. 20–21, emphasis mine.

[11] The account in this and the following five paragraphs is based mainly on this letter, FICCI to Government of India, Commerce Department, 24 August 1936, FICCI, *Corresp.*, 1936, pp. 109–18, except where indicated. See also, FICCI, Circular letter to Member Bodies, 30 July 1936, FICCI, *Corresp.*, 1936, pp. 104–6; and FICCI, *Proc. of EC*, 1936, pp. 20–26, emphasis mine.

the exported quantity was already showing "a tendency to diminish year by year." It was therefore said that "the United Kingdom should now rest satisfied with having drawn out very nearly Rs 300 crores [3,000 million] worth of yellow metal from this country, and should devise other means of stimulating India's export trade".

How was this to be done? The Federation argued that given "the dwindling favourable balance of trade with other countries and the almost sure prospect of the export of gold stopping" the "only alternative...left open (was) that the *United Kingdom make available to India in favourable trade balance to the extent of about 75 crores [750 million] of rupees* to enable India to pay" her sterling obligations. "Both in the interest of the UK's drawings of 'dividends' and in India's interest of developing indigenous industries, UK should not be so keen to increase her exports to India as to increase her imports from this country." There was to be "*no question of India offering any tariff preferences to the UK*" in these circumstances. On the contrary, the United Kingdom being India's creditor to the extent of about 750 million rupees a year, had to "come forward to offer adequate preferences to stimulate India's export trade with her resulting in a substantial favourable balance of trade (for India) for the payment of her liabilities to the United Kingdom". Also, it was "upto the United Kingdom, in her own interests", to secure the necessary balance for India, "by bringing about suitable arrangements with all Empire countries and such other countries as owe debts to the United Kingdom and the other countries of the world"—an aspect which was ignored by the Ottawa Agreement. Further, the FICCI Committee asserted, "such arrangements should precede the negotiation of a trade treaty between the United Kingdom and India because it is only then that a clear perspective will be available of what goal should be achieved" by an agreement between the two countries.

In its letter of 24 August 1936 to the Commerce Department FICCI went on to detail the "handicaps" suffered by India as a result of the Ottawa Agreement and laid down the general outline of the kind of preferences India would need in various commodities in the new trade agreement to effectively increase her exports. Particular emphasis was given to Britain picking up more Indian cotton and it was said that "levying of an import duty on non-Empire cotton would alone give an adequate impetus to the export of Indian cotton to the United Kingdom market". Also it was argued that if Japan could be "made to take $1\frac{1}{2}$ million bales of cotton against 400 million yards piece goods, there is no reason why the United Kingdom should not enter into a similar arrangement". In steel also Britain was said to enjoy excessive preference with no quid pro quo of real value to India, as Britain only undertook to allow Indian pig-iron duty free, an item of which Britain herself was in urgent need. In any event, it was said, "should any preferences be forced upon India under the fresh trade treaty, she should also be entitled to offer (similar preferences) to

any of her important customers for negotiating reciprocal trade treaties with them".[12]

Last, it was said that, in negotiating "reciprocity" or "quid pro quo" in the new trade agreement, it was essential that the massive payments made by India to the United Kingdom in the form of "invisible imports" be taken into account. It was pointed out a little later that Britain herself insisted on the principle of including both "visible and invisible imports and exports" in arriving at the trade balance between two countries, in the Anglo-Russian Agreement of 1934. The Federation calculated that just payment for shipping freights alone contributed Rs 100 to 110 million to the adverse balance against India vis-à-vis the UK. It was said that India also (like UK did with other countries) should insist on Indian ships being used in trade with countries with whom she had a visible adverse balance to enable her to partially square the trade account.[13]

Most of these arguments entered the standard propaganda vocabulary of the capitalist class in general. They led to some recurrent themes which were repeatedly emphasized by various Indian chambers of commerce, and FICCI itself kept harping on them throughout the prolonged negotiations for the new agreement, which lasted nearly three years, involving, inter alia, 14 reports by the Unofficial Advisors submitted between 10 October 1936 and 5 September 1938.[14]

These recurrent themes, which bear some repetition, essentially were, that the new Agreement should not be based on Ottawa or the 1935 Supplementary Agreement; that given the fact that India's export surplus with other countries was declining, to enable India to meet her remittance requirements Britain must now import more from India and give preferences to Indian exports rather than receive preferences for her own goods; that reciprocity in the new agreement was to be based on the entire foreign trade between the two countries, not on a particular commodity against another, and was also to take into account India's payments for "invisibles", home charges, and other sterling obligations; that the terms of the agreement should leave enough scope for negotiating bilateral trade agreement with other countries to encourage Indian exports and the Government of India should urgently explore the possibilities in that direction;[15]

[12] F.E. James (a European capitalist in India) had predicted a year earlier that any new agreement "must get away from the word Ottawa", should be "in this country" and "guarantee a minimum of Indian cotton to be taken by Britain" if it was to stand any chance of success. He also believed a British subsidy to enable the lifting of minimum cotton from India by UK would "pay handsomely" in terms of public opinion towards the new agreement. F.E. James to Streat, 8 March 1935, *L/E/9/1123*, IOR, London.

[13] FICCI, Press Note, 17 January 1937, FICCI, *Corresp.*, 1936, pp. 120–21; and FICCI Note, 22 September 1936, *PT Papers*, fl. 186.

[14] For these Reports of Unofficial Advisers, see *L/E/9/1129*, IOR, London.

[15] Jamshed Nusserwanji even suggested that since the Government of India was unable to act in India's interest in this matter, the Federation should itself conduct negotiations and "try

and lastly that any preference offered to Britain was to in no way affect the interests of indigenous industries, also no undertaking was to be given in the agreement which would "militate against the very principle of the policy of industrial development adopted by India" or would "restrict India's liberty to shape her fiscal policy" or "detract from the protection now enjoyed by industries in India".[16]

The stage was thus set for the negotiations for the new agreement to begin, with the government reconciled to the position that they had to carry the capitalist class with them and the leaders of FICCI adopting a hard bargaining tone.

In the meantime, the Government of India which had so far been unable either under the Mody–Lees Pact or the 1935 Supplementary Agreement to remove the 5 per cent revenue surcharge thus reducing the duty on textile imports from Britain to 20 per cent, finally did so in June 1936 under sustained pressure from Lancashire. Duties on greys and bleached goods (not the duty on prints which remained at 25 per cent and which was particularly important to Lancashire) were reduced by 5 per cent through an executive order of the government based on the findings of a Special Tariff Board, presided over by Sir Alexander Murray.[17]

The Federation promptly protested against this move on several grounds. It accused the government of being "influenced by a desire to safeguard British textile interests" as it had demonstrated earlier by "not accept(ing) the recommendations of the 1932 Tariff Board", which was based "on a careful and thorough investigation". The government, however, accepted the recommendation of the present Tariff Board which

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to create a parallel system of trade negotiations" to force the hands of the British Government, FICCI, *AR*, 1937, pp. 72ff.

[16] Some or all of the above themes are argued in the following. For the views of the Bengal National Chamber of Commerce, The Marwari Association, South Indian Chamber of Commerce, Indian Chamber of Commerce (Calcutta), Malabar Chamber of Commerce, Maharashtra Chamber of Commerce and Indian Merchants' Chamber (Bombay), see *Commerce*, 19 September 1936. For the views of FICCI over time, see *ibid*., also see FICCI Resolution and G.L. Mehta's speech, FICCI, *AR*, 1937, pp. 42–52; FICCI to GOI, Com. Dept., 24 November 1937, FICCI, *Corresp*., 1937; FICCI Resolution, FICCI, *AR*, 1937, p. 72; FICCI Resolution, C.B. Mehta and A.D. Shroff, *AR*, 1938, pp. 46–50; FICCI President J.N. Mehta, FICCI, *AR*, 1939, pp. 4–5, 7; G.L. Mehta, FICCI, *AR*, 1939, pp. 86–89. The First Report of the Unofficial Advisers, 10 October 1936, *L/E/9/1129*, IOR, London, also emphasized the above theme. The BMOA, while maintaining that it was too early to definitely say whether Ottawa was useful to India, however, emphasized the need for India's full fiscal autonomy, in aiding her industrial development through protection or otherwise. The European Chambers such as Bombay Chamber of Commerce and Bengal Chamber of Commerce however felt that the Ottawa agreement was useful to India and the new agreement be along those lines with improvements. *Commerce*, 19 September 1936.

[17] See Commerce Member, *LAD*, Vol. III, 27 March 1939, pp. 2828–29; Zafrullah Khan to GOI, Com. Dept., 9 July 1937, *L/E/9/1125*, IOR, London; Report No. 6 of Unofficial Advisers, 9 July 1937, *L/E/9/1129*, IOR, London; and Chatterjee, "Lancashire Cotton Trade", Chapter III.

"adopt(ed) queer and unfair methods" and seemed to have a "predetermined idea of reducing the present duty on British imports". For example, it was said that the Tariff Board compared "the fair selling prices of inferior Indian goods with the c.i.f. prices of superior Lancashire goods" rather than comparing the latter with the "fair selling prices for the same goods if manufactured in Indian mills" to see how much protection, if any, was necessary. The FICCI Committee was "aghast to find that the Tariff Board brushed aside (the latter) equitable method for no other reason than that it disclosed the necessity of a higher import duty".

The Federation took particular umbrage at the fact that "the Government of India, even if they wanted to effect a reduction in the import duty on the United Kingdom cotton piecegoods, should not have utilised such a reduction to secure proper terms from the United Kingdom for India's benefit". They pointed out that especially given the fact that a new trade agreement with the UK was soon to be negotiated the government should have "deferred their decision with greater advantage to India" and used this reduction of duty as a bargain to extract concessions for India in the agreement. It was said that "In trade negotiations between two countries tariff preferences are always taken full advantage of" but "in India one finds the phenomenon of its Government giving away substantial preferences to the United Kingdom...without any quid pro quo to the nation".[18]

In the prolonged negotiations that occurred between 1937 and 1939, the government took the Unofficial Advisers very seriously. The Unofficial Advisers in effect meant the capitalist leaders, Purshotamdas (Chairman), G.D. Birla and Kasturbhai Lalbhai. They were either able to carry the rest with them or always managed to have the majority. A majority was not difficult as three out of the seven were capitalists. Subbarayan, a Congressman, was it seems asked to follow the lead of the capitalist leaders.[19] Liaqat Ali Khan also went along with the capitalists. In fact, in the following pages, unless otherwise indicated, when I refer to statements by the "Unofficial Advisers" it can be taken as statements of the capitalist leaders. When the Advisers were divided, "majority of the Advisers", would again mean the capitalist leaders who had the majority with them.

The Unofficial Advisers submitted their first report on 10 October 1936. In this report they outlined the main themes that the Indian capitalists had been insisting on as the starting point for the new agreement, which we have discussed above. The report in an appendix gave a detailed commodity-wise breakdown of the preferences that India should receive in the UK market. Special mention was made about raw cotton about which the

[18] FICCI to Government of India, Commerce Dept., 29 July 1936, FICCI, *Corresp.*, pp. 150–53.

[19] G.D. Birla wrote to Purshotamdas, 3 November 1937, "The Congress people had hardly any time to think of our trade talks but I understand Jawaharlal told Subbarayan to accept our lead." *PT Papers*, fl. 181, p. IV.

advisers suggested that discussions should be entered into with the United Kingdom and an agreement reached whereby the United Kingdom would "*within a definite* period", increase its consumption of Indian cotton to about 1,000,000 bales per year from the current rough estimates of about 500,000 bales. The Advisers, however, did not comment on the question of preferences to British goods, having decided to consider it after receiving the British proposals. Only, it was pointed out that after careful examination they believed that "the advantages...derived by the United Kingdom from the differential duties in respect of steel and cotton... far outweigh(ed)...the benefits to India which (could) result from the preferences which (the unofficial advisers had) proposed for her products in the United Kingdom market".[20]

The Board of Trade sent its proposals in reply to the Unofficial Advisers' report in November 1936. The Unofficial Advisers rejected these proposals saying that they did not offer a basis even for oral discussions in London.[21] The Unofficial Advisers in their Report No. 2 of 9 December 1936, unanimously pointed out that the proposals put forward by the British government did not take into account the clear principles they had insisted on in their first report. The proposals, for example, extended rather than restricted the existing preferences received by Britain. The increased or new preferences that were demanded, it was said, would "cover almost every branch of (India's) domestic industries, existing or potential, and in many cases" would "inflict a considerable injury to the economic well being of the country". It was added that the "undue preference" asked for could "seriously endanger trade connections of India with Non-Empire countries" and could even "provoke retaliation" by them. Also, it was said that the proposals included several clauses of the 1935 Supplementary Agreement which the Unofficial Advisers in their first report had specifically said should not form part of a new agreement. In these circumstances the Unofficial Advisers said that, "unless radical adjustments (could) be made by His Majesty's Government not merely in the proposals...put forward but also in their *general attitude* to the question of a trade agreement", it would "be futile to undertake any serious negotiations".[22]

The Government of India too was unhappy with the British proposals. Taking into account the conditions laid down by the Unofficial Advisers, the government argued that these proposals would involve considerable loss of revenue which the government could not afford and also that they

[20] Indo-British Trade Negotiations (hereafter IBTN) Report No. 1 of Unofficial Advisers signed by Purshotamdas, Birla, P. Subbarayan, E.C. Benthall, Liaquat Ali Khan, Kasturbhai Lalbhai, Datar Singh, 10 October 1936, *L/E/9/1129*, IOR, London, emphasis mine.

[21] India Office Note and Government of India's telegram, 26 December 1936, *L/E/9/1124*, IOR, London.

[22] IBTN, Report No. 2 of Unofficial Advisers, Confidential, 9 December 1936, *L/E/9/1129*, IOR, London.

would impose burdens on industry and agriculture and raise the cost of living of poorer classes. The government further felt that, "unless the Board of Trade demands were considerably narrowed", it would not be possible to "induce the non-official advisers to proceed to London for discussion", and should that happen it would "greatly increase" the difficulties in getting the agreement through the Legislature. The Government of India regarded it "as essential that (they) should be able to carry (the) non-official advisers with (them) at least as far as London discussions" and were therefore "constrained to recommend that (the) Board of Trade... be asked to send further proposals" keeping in mind the objections raised.[23]

In early 1937 the Board of Trade sent revised proposals putting forward tentative principles on which negotiations could commence, which the Government of India placed before the Unofficial Advisers in March 1937. The Unofficial Advisers noted the British government's willingness to "recognise the importance of" and "pay due regard" to the various "fundamentals laid down" by them in the beginning. They, however, pointed out that the British proposals made no mention of two of the conditions laid down by them, in their first report, i.e., that India as a debtor country required a continued favourable balance of trade and that the new agreement was not to hinder trade with other countries or provoke retaliation. However, on the assurance that the Government of India took these conditions "as inherent" in the British government's proposals, and that the British government would "be prepared to negotiate on the principles put forward" by (the Unofficial Advisers) in their first two reports and that discussions would not be confined exclusively to the Board of Trade formula, the Unofficial Advisers on 15 March 1937 agreed to proceed to London to have oral discussions.[24]

The Indian delegation (with Zafrullah Khan, Commerce Member, as the sole Delegate, Bryce Bart, N.R. Pillai and Dr Meek as Official Advisers and the seven Unofficial Advisers) arrived in London in early June 1937. The Unofficial Advisers summarily rejected the fresh demands made by the British government for increased or additional preferences on 29 items.[25] After considering the question of the existing preferences on these items the Unofficial Advisers finally reserved only six items for consideration.[26]

[23] GOI's Teleg. to Secretary of State, 26 December 1936, *L/E/9/1124*, IOR, London.

[24] See IBTN, Report No. 3 of Unofficial Advisers, 15 March 1937, *L/E/9/1129*, IOR, London; India Office Note on New Agreement, January–March 1937, *L/E/9/1124*, IOR, London; Purshotamdas's Review of the Unofficial Advisers' activities, *PT Papers*, fl. 204.

[25] See IBTN, Report Nos. 4 and 5 of Unofficial Advisers, 24 June and 25 June 1937, *L/E/9/1129*, IOR, London.

[26] Purshotamdas's Note, 31 July 1937, *PT Papers*, fl. 201. E.C. Benthall however had no objection to the existing preferences on the 29 items, provided India could vary the standard rate and subject to the Advisers being satisfied with the final arrangements as a whole. Report No. 5 of Unoff. Advisers, 25 June 1937, *L/E/9/1129*, IOR, London.

In the meantime, it was made apparent to the Unofficial Advisers "that if there was to be a trade agreement between India and United Kingdom the question of granting some further concessions to Lancashire piece-goods... had to be sympathetically examined".[27] The "cotton question", the question of piece goods imports and raw cotton exports was rapidly acquiring centre-stage in the Indo-British trade negotiations.

On 1 July 1937, in a note prepared by the Board of Trade for the UK delegation,[28] it was pointed out how British exports of cotton piecegoods to India had fallen drastically (despite Ottawa and the Mody–Lees Pact and even the 1936.5 per cent reduction in duty) from 3,000 million yds in 1913 to 1,444 million yds in 1928–29 to 377 million yds in 1931–32 and 340 million yds in 1936–37. On the other hand, Indian mill production rose rapidly over the corresponding years being 1,150 million yds in 1913, 1,893 million yds in 1928–29, 2,990 million yds in 1931–32 and 3,571 million yds in 1935–36.

The improvement in British exports in 1934–35 (see Table 8.1) was ascribed to the restrictions on Japan, but it was said that very soon "Indian mills had absorbed all the demand released by the Japanese quota and had made further inroads into the trade still left to Lancashire". The note asserted that "the decline in Lancashire's trade with India" in the past three years could not be "attributed to Japanese imports, which (had) been limited by quota since the beginning of 1934" but were "undoubtedly due to competition of Indian mills stimulated by the height of the protective tariff".

Table 8.1

Imports of Piecegoods from Britain and Indian Mill Production: 1913–37

	Imports of piecegoods from Britain (million yds)	*Indian Mill Production (million yds)*
1913	3,000	1,150
1928–29	1,442	1,893
1931–32	377	2,990
1934–35	552	3,397
1935–36	440	3,571
1936–37	340	–

Source: See fn. 28.

While British textile exports fell so rapidly, Lancashire's offtake of Indian cotton, it was pointed out, increased considerably (see Table 8.2) thanks to the efforts of the Lancashire Indian Cotton Committee in

[27] See Purshotamdas's Note, 31 July 1937, *PT Papers*, fl. 201; and Report No. 11, 3 October 1937, *L/E/9/1129*, IOR, London, emphasis mine.

[28] Note on United Kingdom Textile Desiderata in connection with the trade negotiations with India, 1 July 1937, *L/E/9/1128*, IOR, London.

Table 8.2
Imports of Indian Cotton into the UK: 1932–37

	Bales
1932/33	229,740
1933/34	361,546
1934/35	393,784
1935/36	546,654
1936/37 (42 weeks)	503,837

Source: See fn. 28.

implementing the undertaking given to India in Ottawa and under the Mody–Lees Pact.

Given the fact that Lancashire was fulfilling its commitments regarding raw cotton and that a "solution (had to) be found without delay" for the "acute unemployment and distress" faced by Lancashire, whose trade with India which in 1929 accounted for 38 per cent of total British exports to India was now faced with "virtual extinction", the Board of Trade argued for a "*substantial reduction* in the rates of Indian import duty... on all classes of United Kingdom cotton and rayon goods". No specific figure was quoted at this stage though the emphatic position taken in their November 1936 Memorandum was reiterated that "one of the *chief aims* of the present negotiations" was that British cotton goods should "be afforded more favourable access to the Indian market".[29]

The Unofficial Advisers' immediate response to the Board of Trade note was first to point out in general terms, in their report of 9 July 1937, that the "natural expansion of Indian Mills which is said to be the cause of loss of trade and of regret to United Kingdom is naturally viewed by us with contrary feelings". They also at that stage refused to express any specific opinion about cotton duties on the ground that the existing Tariff Board recommendations were due for renewal in April 1939 and that they found it "impossible to go beyond findings of last Tariff Board enquiry or to constitute (themselves) into equivalent of a new Tariff Board".[30]

In their report (No. 7) of 21 July, the Unofficial Advisers deliberated on the British comments on the desiderata submitted by the Indians in their first report, regarding preferences sought in the British markets. The Advisers were surprised at Britain's desire "to restrict preferences to Indian imports (manufactures) into the United Kingdom wherever such imports appear(ed) to have derived some concrete benefit". Chrome leather, jute manufactures and woolen carpets and rugs were cited as examples where this attitude was apparent. Regarding raw cotton, the Advisers, while

[29] *Ibid*.
[30] IBTN, Report No. 6 of Unofficial Advisers, 9 July 1937, *L/E/9/1129*, IOR, London.

appreciating the work of the Lancashire Indian Cotton Committee and the increase in British consumption of Indian cotton rising up to 650,000 bales, suggested that the Committee "concentrate hereafter upon inducing the United Kingdom to take *more of short and fair staple cotton* (varieties in which India had a surplus) than heretofore, and that the United Kingdom give a definite undertaking to import from India during 1938, 7–800,000 bales, increasing steadily by 100,000 bales every year during the currency of the agreement".[31]

The Unofficial Advisers, who so far had refused to make any concession to Lancashire, were however beginning to feel the pressure. As Purshotamdas, the Chairman of the Unofficial Advisers, noted at the end of July 1937: "The position now appears to be that, unless something can be done for Lancashire, it is said that no trade treaty can prevail".[32] Nevertheless, on the surface the Advisers maintained a tough bargaining note in their discussions with the British delegation—"we have definitely informed them that we are not anxious for a Trade treaty".[33] However, simultaneously the Advisers discretely began discussions among themselves regarding the possibilities of a concession to Lancashire and its likely fallout. A timely statement by A. Campbell, the Chairman of the Lancashire representatives, which, inter alia, recognized "the absolute right of Indian industry to be supreme in the Indian market", offered to put a voluntary maximum limit to Lancashire exports to India and pointed to the substantial voluntary increase in Lancashire offtake of Indian cotton,[34] contributed to the Indian side agreeing to look into the question of a concession to Lancashire[35]—albeit as yet discretely.

Purshotamdas in a secret note to textile and cotton interests in India wondered: "If H.M.G.... agree to our desiderata in every other respect and if a binding is given regarding Lancashire taking one lac [0.1 million] of bales more per year up to, say, 10–11 lacs [1 to 1.1 million] of bales, with, say 60% short and fair staple cotton in it, would it be worthwhile reducing the import duty on Lancashire piecegoods in India from the existing 20% to either $17\frac{1}{2}$% or 15%?"[36] The advantages of following such a course,

[31] Report No. 7 of Unofficial Advisers, 21 July 1937, *L/E/9/1129*, IOR, London, emphasis mine.

[32] Purshotamdas's Note regarding UK desiderata about Cotton Textiles, 31 July 1937, *PT Papers*, fl. 201.

[33] *Ibid.*

[34] Strictly Confidential, A.O. Campbell to Purshotamdas Thakurdas, Chairman of the Committee of Indian Unofficial Advisers, 26 July 1937, *IBTN*, Report No. 12 of Unofficial Advisers, Annexure V, *L/E/9/1129*, IOR, London. Campbell's suggestion that Lancashire be allowed between $6\frac{1}{4}$ to $12\frac{1}{2}$ per cent of the Indian textile market was however not acceptable to the Indian advisers—more on this later.

[35] See IBTN, Report 11 of Unofficial Advisers, 3 October 1937, pp. 3–4. *L/E/9/1129*, IOR, London.

[36] Note by Purshotamdas, 31 July 1937, *PT Papers*, fl. 201.

Purshotamdas pointed out, were that it would "ensure a good market for India's raw produce and... commit Lancashire to a friendly attitude towards India economically and politically." Further, he added that if the Indian millowners could reconcile themselves to this lessening of the duty then it could be possible to avert the "danger of a Tariff Board sitting" by the end of 1938, and it could even be possible to delay the inquiry till 1942–43 by which time "the Federation" could come into being changing the constitutional position totally in favour of Indian interests. "The danger of a Tariff Board sitting" by end of 1938 was "obvious (because) such a board (was) bound to report in favour of Lancashire", and it could "recommend a lower duty even than 15%".[37]

Purshotamdas was aware that the question of cotton duties had a "bad odour about it" and any concession on this would "seriously prejudice the Report" in public view, but if no concession was made then he was clear that "there certainly (would) be no agreement, and, in addition there could be preferences given to (other) Colonies" which would adversely affect Indian exports. Such an eventuality, he argued, was "to be avoided in the interest of the Indian agriculturist".[38]

Given the considerations outlined above and bearing in mind the fact that Kasturbhai and Birla (both millowners from different parts of the country) felt that "a reduction of duty to 17 $\frac{1}{2}$% (would) not do any harm at all, and even to 15%, it would not matter" as "Lancashire (would), in no case, be able to compete with India even with a 15% duty", Purshotamdas sought advice from a variety of interests on the course of action to be followed.[39]

In a note responding to Purshotamdas's query, he was warned that given "the present political temper of the country and the jubiliation...(at) the assumption of office by the Congress Ministries... any concessions given to Lancashire" was likely to be "looked upon as a sign of weakness" and would "result in unpopularity for the Indian Advisers".[40] Otherwise there was said to be considerable agreement, among millowners in India, with Birla's and Kasturbhai's view that "a reduction of 5% in the duty on Lancashire piecegoods (would) not affect materially Indian mills", and it was felt that "had the question of Lancashire preferences been not subject to political prejudice, for which to a large extent Lancashire have to thank themselves, a concession of 5% in duty to Lancashire could be offered as a bargaining measure". On balance it was felt that, though the proposed

[37] *Ibid.*

[38] *Ibid.*

[39] *Ibid.*

[40] Note by Haridas Madhavdas, Vice President, E.I. Cotton Association, Varjivanbhai and (illegible), Bombay, 11 August 1937 in response to Purshotamdas's note 31 July 1937, *PT Papers*, fl. 201.

concession would "result in a certain amount of unpopularity (given) the present temper of the country", it should be faced. And if the Advisers were able to show the Indian public that "for a concession worth... 16 annas, they...brought back something worth 17 annas" (Lancashire guaranteeing to lift 0.8 million bales of Indian cotton rising to 1 million and that too 60 per cent of their taking being short and fair staple cotton) then this "unpopularity" would also soon get "wiped out".[41]

The disadvantages, as outlined by Purshotamdas, of India not making a concession to Lancashire and the negotiations breaking off, were fully appreciated but simultaneously it was pointed out that India's bargaining position was quite strong and there was no need to panic. It was said that the UK took from India an annual remittance of about £100 million and this remittance could not be met "if the UK refuse(d) to take Indian goods" and in this situation "the UK (would) suffer at least as much as India by breakoff the negotiations". Also, "in the atmosphere of impending war and increasing trade demand for raw materials, the UK would not be very happy without the assurance of a number of commodities from India". Given this, it was said, "the position of India in these negotiations is very strong and a threat to break off the negotiations should not frighten India". Besides, such was the "temper of the country... that they would welcome a break in the negotiations in spite of the... dangers" that it involved.[42]

The capitalists' view on the question was therefore quite complex and flexible—while on the one hand they saw the economic advantage of a concession to Lancashire (of course, given certain minimum undertakings from the British side) they were quite sensitive to the political fallout of such a concession and were willing to drop the negotiations on this ground. This perspective was demonstrated again, a few months later, by G.D. Birla who, when he found that opinion within the Indian National Congress was divided on the negotiations (with Gandhiji and Maulana Azad feeling "that there could be no trade pact unless there was understanding on the wider question", i.e., on the political front), wrote to Purshotamdas, "We shall make up our mind after we get all these views (i.e., of others like Patel, Nehru, etc. A.M.). If we find that the popular view is against any such pact, my own feeling is that we should stick to our present position.... But we should make it quite clear at the same time... that we have found that *the popular opinion is not in favour of a trade pact and therefore it would be desirable at this stage to drop the negotiations.*"[43] The actual course of events followed somewhat the lines anticipated by G.D. Birla, as we shall see later.

In the meantime whatever be the Indian capitalists' own understanding regarding the nature and possibility of a concession to Lancashire, the

[41] *Ibid.*
[42] *Ibid.*
[43] G.D. Birla to Purshotamdas, 10 November 1937, *PT Papers*, fl. 181(iv), emphasis mine.

Unofficial Advisers in their formal negotiations kept up a strong bargaining tone, and did not, for quite some time to come (including their entire negotiations in London), commit themselves to any *specific* concession to Lancashire.

In their ninth report of 15 September 1937, the Unofficial Advisers merely stated that, provided all their desiderata were met (i.e., all the preferences received by India under the Ottawa Agreement were maintained) and the demands regarding raw cotton were conceded, and also, provided the UK agreed to limit the preferences received by them in the Indian market to goods worth Rs 30 million (the existing preferences under the Ottawa Pact based on 1935–36 figures was 170 million), they "should be willing sympathetically to approach the problem of Lancashire and to make recommendations to the Government of India" which would be "acceptable to India, including the Indian cotton interests".[44]

Within two weeks of the ninth report of the Unofficial Advisers, the President of the Board of Trade, United Kingdom, sent in a note outlining a possible basis for agreement. The main items in the Board of Trade proposals were:[45]

(*a*) Duty on all United Kingdom cotton piecegoods was to be reduced by 5 per cent (i.e., it should be 15 per cent) and the duty was to be reduced by successive amounts of 2.5 per cent should imports fall below 6.25 per cent of India's total consumption of textiles, including handloom, and to be increased if they rose above 12.5 per cent.
(*b*) The United Kingdom was to forego preferences on goods the imports of which amounted in 1935–36 to 45 million.
(*c*) A formula was to be found to meet the Indian request with regard to increasing imports of Indian raw cotton.

The very next day, in their Report No. 10 dated 1 October 1937, the Unofficial Advisers rejected the proposals and advised that "the basis as prepared by the Board of Trade *should not be accepted by the Government of India*". The majority of the advisers, including the three Indian capitalists (Purshotamdas, Kasturbhai and G.D. Birla) argued that the proposals gave "greater gain to UK than (even) under the Ottawa Pact" and had "possibilities of reductions in the advantage to India in the UK market under the Ottawa Pact".[46]

It was pointed out that, while "under the Ottawa Pact, UK got preferences on goods (excluding textiles) worth about Rs 17 crores [170 million] on the 1935–36 figures", in the new proposals, on the one hand, "UK (was)

[44] IBTN, Report No. 9 of Unofficial Advisers, 15 September 1937, *L/E/9/1129*, IOR, London.
[45] IBTN, Note from President of Board of Trade, Possible Basis for Agreement, 30 September 1937, *L/E/9/1129*, IOR, London.
[46] IBTN, Report No. 10 of Unofficial Advisers, 1 October 1937, *L/E/9/1129*, IOR, London.

prepared to forego preferences on goods, other than cotton textiles, worth Rs 4 $\frac{1}{2}$ crores [45 million]", on the other, "it demand(ed) concessions on goods (textiles) worth Rs 9 crores [90 million]" adding up to "much more than what it had got under the Ottawa Pact". In any case, it was said that the gap between the Unofficial Advisers' figure, of reducing the Ottawa Preferences by Rs 140 million bringing it down from Rs 170 million to Rs 30 million and the Board of Trade figures of reducing the preferences by only 45 million, i.e., from Rs 170 million to Rs 125 million, was so much that there was no "common basis for discussion" left and the Advisers found it impossible "from the purely commercial and economic aspect" to recommend an agreement on this basis to the Government of India.[47]

As an explanation for quoting only Rs 30 million as the preference to be given to UK the Unofficial Advisers pointed out that "in considering the preferences to be given to the UK (they) were guided by the fact that there was an unanimous feeling in the country that the Ottawa Trade Agreement was not based on equity and that the denouncement of the pact by the Central Legislature had only one meaning, that is, that a new trade treaty should be based on a *substantial reduction* in the preferences at present enjoyed by the United Kingdom in the Indian market".[48]

As for the Board of Trade proposals regarding duty concessions to Lancashire to enable her to retain a specific share of the Indian market, the Advisers' response was brusque. They pointed out in their Report No. 10 of 1 October how their position on this question from the beginning had been that they were not competent to recommend any change in duties which were fixed after a Tariff Board enquiry. However, in their previous report (No. 9) they had agreed to approach the problem of Lancashire sympathetically, provided certain conditions were met. Since then some informal talks with Lancashire representatives were held but the Indian side was "unwilling to enter into details (of the specific concession to Lancashire goods) until the question of other preferences in India on UK's exports" was settled. But now the Board of Trade quoted a figure (Rs 125 million) which was "so wide off the mark" set by the Unofficial Advisers (Rs 30 million), that the latter felt they could not even ask the representatives of Indian textile industry "to enter into details" regarding any concession to Lancashire and make any definite proposals.[49]

The 1 October Report also commented on the repeated reference that was made by the British delegates regarding the substantial increase in the offtake of Indian raw cotton over the last four years and the suggestion made that if there was no agreement with UK, Indian raw produce exports

[47] *Ibid.*

[48] Press statement by Purshotamdas, G.D. Birla and Kasturbhai on their return from negotiations in London, October 1937, *PT Papers*, fl. 182.

[49] IBTN, Unofficial Advisers, Report No. 10, 1 October 1937, *L/E/9/1129*, IOR, London.

would suffer and raw cotton exports would be particularly affected, given "Japan's inability, at the moment, to take her stated quota, and the big cotton crop which (was) being marketed in the USA". First, the Unofficial Advisers pointed out that "Indian cotton (did) not enjoy any preference in UK and the steady increase in consumption of Indian cotton in UK during the last four years (had) been on the basis of free entry". They said that "it was necessary to bear in mind that in using Indian cotton, *no sacrifice* (was) involved on the part of Lancashire. They...bought Indian cotton because the *parity (was) correct or more than correct with* world cotton prices". The Lancashire effort to use the recent increase in the offtake of Indian cotton as a bargain to demand concessions from India was thus dampened—on the contrary, the recent increase was used by the Indian side to bargain for a much higher offtake in the agreement. More on this later.

Second, the Advisers also refused to be bullied by the threat of the British market for Indian raw cotton being jeopardized. They said,[50]

> We do not perceive any justification for India to be stampeded into an inequitable trade treaty with UK on account of the apprehension that Indian cotton may (face) a glut on the market during the (forthcoming) year, which can be relieved only by purchase by UK. We refuse to believe that either the Lancashire spinners or the UK Government will possibly take any action which may be in the nature of a retaliation against India regarding...Indian ...imports into UK, in case of there being no trade treaty on the lines of special preferences to UK in India. We venture to submit that if there be any fear of retaliation by UK,—although we refuse to accept this view,—it would be best for India to make up her mind to free herself from such apprehensions as otherwise it would always mean UK dictating terms to India in the matter of... trade agreement(s) between the two countries.

Also, the Advisers believed that "any temporary phase of world economic conditions" (such as the expected glut in cotton markets in the coming year, due to conditions in Japan and USA) should not be the "basis of a trade treaty", which should "recognise only the fundamental needs of both countries over a foreseeable period of years".[51]

Shortly after submitting this report the Unofficial Advisers were to end their stay in London. Before leaving they submitted their last report from London on 3 October 1937, reviewing the experience of the negotiations from the very beginning and laying down their "final recommendations"

[50] *Ibid.*

[51] Press Statement by Sir Purshotamdas, G.D. Birla and Kasturbhai Lalbhai on return from London after negotiations, October 1937, *PT Papers*, fl. 182.

on the basis of which the Government of India was to negotiate the agreement. These recommendations were:[52]

1. Our desiderata in respect of preferences to Indian commodities in the UK market to be accepted *in toto*.
2. Lancashire should guarantee the definite purchase of Indian cotton rising from 7 $\frac{1}{2}$ lakhs [0.75 million] of bales to 10 lakhs of bales by graduated steps.
3. The UK should get preferences on certain commodities comprising a trade not exceeding three crores of rupees *plus* the benefits of the differential duties already enjoyed in cotton and steel.
4. The case of Lancashire to be considered sympathetically and a recommendation to be made based on a scheme of restriction of the Lancashire trade and a reduction of duty by an amount acceptable to the Indian cotton textile industry.

The Advisers "recommend(ed) to the Government of India that nothing should induce them to go beyond this...farthest limit" outlined by them. Doing so would involve the infringement of the principles of "equity" and "economic reciprocity". To buttress the argument that the terms suggested by them were equitable the Advisers made detailed comments on the nature of the preferences received by India in contrast to concessions offered by her. Analyzing Indian exports to UK they showed that out of the total value of Indian goods receiving preference in the UK markets (of about Rs 335 million) the preferences received on 82 per cent i.e., on goods worth Rs 275 million were of very limited benefit to India as they had only an "insurance value" for India. This was true for two reasons. "Firstly because" in these commodities India's "main competitors (were) Empire countries" who also received "the same amount of preferences" as India did and "secondly because, the available UK market (was) largely supplied by India and other Empire countries". This made the preference in these commodities "inoperative except as an insurance".[53] The value of goods on which preferences were "of actual value to India" (because here the non-empire foreign countries held a large part of the British market and were India's main competitors)[54] was only about 60 million or roughly

[52] IBTN, Report No. 11 of Unofficial Advisers, *L/E/9/1129*, IOR, London, E.C. Benthall and Datar Singh had differences with the Report especially on items 2 and 3, where they were willing to accept more liberal terms. See *ibid.*, pp. 8–14.

[53] As the Advisers further explained, "In asking for preference for the above commodities, we were virtually asking for a favoured-nation treatment *lest preference be imposed against us*,—a treatment we are already according to the UK" *ibid.*, p. 6, emphasis mine.

[54] Jute manufacturers were the only exception here. India met about 99.9 per cent of the UK imports of this commodity. The preference here was in relation to Dundee manufactures. The Unofficial Advisers had threatened a retaliatory measure by the Government of India,

18 per cent of the total preferences received. Even in case of preferences in these goods the Advisers had some reservations regarding their usefulness in practice. On balance then, the Advisers argued, "the cumulative advantages of all the preferences that India enjoys,—and which we have asked should continue,—and also the advantages of an assured market for Indian cotton could not…be considered as an adequate quid pro quo for the concessions that we are prepared to make" in the final recommendations (of 3 October 1937). They said that they made these concessions for the sake of "goodwill" and taking "as liberal a view as possible", and "to go beyond this would…be against the vital interests of the country".[55]

The Unofficial Advisers thus left London with the negotiations having reached an impasse. The Advisers, much to the chagrin of the Government of India, had adopted a very hard bargaining stance and refused to commit themselves to any specific concessions to Lancashire without first receiving a firm commitment from the British side regarding how far it would go to meet the Indian demands.[56]

The Government of India therefore had to cable to Zafrullah Khan, the sole delegate on the Indian side, "In view of departure of majority of non-official advisers without disclosing their specific recommendations but without recommending breaking off the negotiations we think it desirable you should return to India and that negotiations should be resumed from here…."[57]

Back in India, when the Advisers were asked whether any modification was possible in the positions taken by them in Reports 10 and 11, they asserted in their 12th Report of 3 December 1937 that "no new situation had arisen… to warrant any change in the position… (taken) in London". They said there may be "some justification for reconsidering (their) position" only if Her Majesty's Government were "willing to *substantially* reduce the preferences demanded by them in the Indian market" (the British

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putting an export duty on raw jute (an Indian monopoly) in case Britain under pressure from Dundee put restrictions on Indian exports of jute manufacturers. See IBTN, Report No. 8 of Unofficial Advisers, *L/E/9/1129*, IOR, London.

[55] IBTN, Report No. 11 of Unofficial Advisers, 3 October 1937, *L/E/9/1129*, IOR, London. See also Birla's Note (undated), *PT Papers*, fl. 197, which more or less builds up the case argued in this report.

[56] The Viceroy thought the Advisers had played a deliberate trick in not committing themselves. Earlier, when Zafrullah Khan reported to Government of India that the stand taken by the majority of the Advisers (including the three capitalists) regarding the limiting of preference to British goods to Rs 30 million was leading to a situation of either a break with the majority advisers or a breaking of the negotiations, the Government of India advised him to first find out the proposals of Unofficial Advisers regarding Lancashire before risking a break with them. See Zafrullah Khan to Commerce Dept., Government of India, 16 September 1937, Government of India's reply, 17 September 1937, and Viceroy's comments in Government of India to Zafrullah Khan, 8 October 1937, *L/E/9/1125*, IOR, London.

[57] Government of India to Zafrullah Khan 9 October 1937, *L/E/9/1125*, IOR, London.

proposal being Rs 125 million as against the Indian one of Rs 30 million) and if a "definite undertaking or *guarantee*" was given regarding "the purchase of *7 lakhs* [0.7 million] of bales of cotton per annum rising to 10 lakhs [1 million] of bales". The Advisers also used the opportunity to convey unhappiness at the news that the Government of India "hesitated to give an undertaking" that the new trade treaty that was to be made with the United Kingdom would be "put before the Legislative Assembly for their sanction". They said that they accepted the position of the Unofficial Advisers only on the ground that the new agreement "would be a voluntary trade treaty between India and United Kingdom". If the assent of the legislature, i.e., popular approval, was not got this "voluntary" aspect would disappear.[58]

With the Unofficial Advisers refusing to budge from their position unless the British government gave an "assurance that they would be prepared to give reasonable satisfaction on the demands specified in the Unofficial Advisers' Report", a fresh initiative was necessary to break the impasse. Eventually, the Commerce Member of the Government of India, Zafrullah Khan, was sent to England in January 1938 reportedly to "make an earnest effort to get (the British side) to fall in line with what (the) non-officials (had) suggested".[59] Before his departure "Kasturbhai (had) impressed on Zafrullah the necessity of getting Her Majesty's Government to realise that the *fundamental part* of the arrangement with Lancashire was a definite guarantee to take 7 lacs [0.7 million] of bales a year, rising to one million...."[60]

In March 1938, the Department of Commerce in a letter to Purshotamdas and the other Unofficial Advisers informed them that Zafrullah Khan had been successful in obtaining the assurances demanded by them from the British government before negotiations could be re-opened between the British and Indian cotton interests. Also, they were informed that "an influential delegation from Lancashire" would proceed to India as soon as necessary to commence the talks. Further, the Government of India suggested that the "representatives of the Textile Industry on the corresponding Indian delegation" should include, not only Purshotamdas, Birla and Kasturbhai, but "further representatives of textile interests" (such as H.P. Mody) and other representatives of cotton-growing interests in India, apart from Datar Singh and Professor Roberts.[61]

The Indian capitalist leaders among the Unofficial Advisers, Purshotamdas, Birla and Kasturbhai, reacted strongly to the government suggestion regarding the personnel of the Indian delegation. They felt that the

[58] IBTN, Report No. 12 of Unofficial Advisers, 3 December 1937, *L/E/9/1129*, IOR, London, emphasis mine.

[59] See Purshotamdas to G.D. Birla, 8 January 1938, *PT Papers*, fl. 182, pt. V.

[60] *Ibid.*

[61] H. Dow, Dept. of Commerce to Purshotamdas et al., 16 March 1938, *PT Papers*, fl. 181, pt. I.

government was trying, by indirect means, "to pack the Delegation" with people like the "so-called cotton growers (who) would in fact be the nominees of Lancashire".[62] The government through this move, argued Kasturbhai, "wish to circumvent us somehow. Everytime they find that the advisers' point of view is different from theirs they try to put us in a minority".[63]

The demand put forward by Birla was that "the negotiations should be conducted with Lancashire *only by the cotton textile interests*" and that too by a committee of the Unofficial Advisers, consisting of Kasturbhai, Birla (the two representatives of textile interests among the Advisers) and Purshotamdas as Chairman of the Advisers.[64] The representatives of textile interests from Bombay, Ahmedabad and other centres could help the committee as advisers on the question of tariff, while there could be "advisers from cotton growers" to help in the "negotiations for raw cotton and for nothing else".[65]

Purshotamdas pointed out to the government that when the negotiations were going on in London "the Government of India were satisfied that the Committee was sufficiently representative to conduct negotiations with Lancashire", and the Lancashire people conveyed the impression that they preferred to negotiate with Kasturbhai. He therefore insisted that the procedure followed in London be continued and no omission or addition be made to the existing personnel.[66]

Eventually the Government of India gave in to the capitalists' demand, though not without Purshotamdas threatening virtually a breakdown in the negotiations,[67] and it was decided that conversations with the Lancashire Delegation should be conducted on behalf of India by the Committee of Unofficial Advisers and the representatives of millowners' associations

[62] G.D. Birla to Purshotamdas, 21 March 1938, *PT Papers*, fl. 181, pt. V.

[63] Kasturbhai to Purshotamdas, 20 March 1938, *PT Papers*, fl. 101, pt. V. It was felt that it was not right to include Datar Singh and Roberts (people who generally took a position closer to Lancashire, especially the latter) and exclude Liaqat Ali (who generally supported the capitalists' stance).

[64] G.D. Birla to Purshotamdas, 21 March 1938, *PT Papers*, fl. 181, pt. V. Birla's reasoning was that the negotiation with Lancashire involved premature expiry of the full three-year term of protection that was given to Indian textile interests. Since the Indian textile interests were to make the "sacrifice", which legally and morally they could not be forced to, it was only fair that *they* should negotiate and take a "voluntary" position. *Ibid*.

[65] *Ibid*. Purshotamdas had proposed that representatives of millowners elected by various associations could join the negotiations though his preference was that Birla and Kasturbhai do it by themselves. This was strongly turned down by Kasturbhai who felt that the negotiations were "a delicate task and must be left to two or three". Purshotamdas to G.D. Birla, 18 March 1938 and Kasturbhai to Purshotamdas, 20 March 1938, *PT Papers*, fl. 181, pt. V.

[66] Purshotamdas to Dow, 24 March 1938 and Purshotamdas to Zafrullah Khan (undated), *PT Papers*, fl. 181, pt. V.

[67] *Ibid*.

and of cotton growers would only be made "available to the Unofficial Advisers for consultations...".[68]

The stage was thus set for another round of negotiations. However, the capitalists decided to sound the political leaders of the national movement before they went in to negotiate and committed themselves to any position. The thorny issue was the same which had come up a few months earlier, i.e., could a concession be made to Lancashire, if in return India got substantial and tangible economic benefits. We saw earlier, (see p. 266) that the Congress, especially Gandhiji, had reservations from the political point of view regarding making any agreement with Lancashire.

G.D. Birla prepared a convincing economic and even a moral and ethical argument to pursuade Gandhiji to accept an agreement with Lancashire based on a duty concession, provided, of course, Lancashire met some specific conditions. He pointed out that the period of protection enjoyed by the Indian textile industry would come to an end by about a year's time, i.e., by March 1939. The new tariff board was likely to give a 5 per cent reduction in tariff to Lancashire. "The question therefore is", he wrote to Gandhiji:[69]

> should we give Lancashire a grant of 5% under the recommendation of the Tariff Board without asking for any quid pro quo or should we insist on a pact based on 5% reduction and a definite guarantee by Lancashire to purchase a large amount of Indian cotton. The choice is between these two alternatives. Purely from the economic point of view, we would not think of giving a free gift of 5%. But from the political point of view, there may be reasons for taking up such an attitude. I should like you therefore to send me... your arguments in favour of such a position which... would appear to be anomolous from the economic point of view. Because under this position Lancashire will get what she wants without having to pay anything for it.

When Gandhiji responded saying that though Birla's argument was correct from the economic point of view, he had to take a political view of the matter and politically the Congress could not support an agreement with Lancashire based on a concession to Lancashire cloth,[70] Birla made an additional set of arguments. He pointed out that the present negotiations had started on the basis of a Resolution passed in the Legislative Assembly in March 1936 and "the Congress Party in the Central Assembly (stood) committed to this Resolution". Now, after 18 months of negotiations (during which the Congress had not said anything against it), to say that for

[68] Zafrullah Khan to Purshotamdas, 9 April 1938, *PT Papers*, fl. 181, pt. V.
[69] G.D. Birla to Gandhi, 17 April 1938, *PT Papers*, fl. 181, pt. VI.
[70] See Gandhi to G.D. Birla, 20 April 1938, *PT Papers*, fl. 181 (VI) (in Hindi).

"political reasons" the Congress would not be prepared to conclude an agreement with the United Kingdom would be bad form, and very difficult to justify. He said it would be understandable if at this stage the Congress refused "to conclude an agreement on economic grounds." But if the grounds were "purely political, it would look rather odd if after having kept silent for eighteen months", after having called the Lancashire delegation over 5,000 miles, "the Congress now (came) out to denounce the negotiations which were taken up at their request".[71]

However, Birla added that if even after consultation with Vallabhbhai Patel, Gandhiji on "political grounds" did not want an agreement with Lancashire then the Congress should inform all its representatives that they are not to make any such agreement on this ground. The Working Committee and Provincial Governments should also send the Unofficial Advisers a directive that they believed that the Advisers should refuse an agreement because of certain stated reasons. This, Birla said, would save the Advisers the ethical or moral embarrassment of refusing an agreement at this late stage as they, while following the Congress directive, would be able to say that, although their viewpoint was different, they were submitting to popular opinion against the agreement.[72]

It is reported that even Sardar Patel, in a meeting between Purshotamdas, Gandhiji and himself, tried to argue with Gandhiji reiterating the point that the Congress was a party to the demand in the Assembly for negotiation for a new trade treaty based on a report of the Advisory Committee and therefore could not now back out from it.[73] Gandhiji, who had throughout remained outside the constitutional arena of assemblies, etc., had no difficulty in pointing out that he was "not a party to these requests and demands". He added that he "could not see under what circumstance the Congress could be a party to agreeing to take cloth from Lancashire in return for cotton from India... (it) would be definitely against the whole *creed* of the Congress". He however had the following to say to the Advisory Committee as reported by Purshotamdas and it may be worth quoting at length:

1. The Advisory Committee may examine the trade pact from a purely economic point of view.
2. That if, on that examination, they could honestly recommend an agreement with UK, *including an arrangement with Lancashire*, he saw no objection to their making such recommendation.
3. Per contra, if, on such examination, the Advisory Committee felt that they could not recommend such an agreement, *he would not be sorry.*

[71] G.D. Birla to Gandhi, 22 April 1938 (in Hindi) and 23 April 1938, *PT Papers*, fl. 181, pt. VI.

[72] G.D. Birla to Gandhi, 22 April 1938 (in Hindi), *PT Papers*, fl. 181 (VI).

[73] Note dated 30 April 1938, on Purshotamdas's meeting with Gandhiji and Patel on 29 April 1938, *PT Papers*, fl. 181, pt. VI.

4. That any such recommendation made by the Advisory Committee...would command his best attention, but he would advise (them)... to put in a paragraph at the end of their recommendation saying that they had examined the whole question only from an economic point of view and no other. Other points of view, viz., political etc. were for the Government of India to consider and the Assembly to express an opinion on.
5. Mahatmaji, however, made it clear in unambiguous language that if the Advisory Committee felt that they could not put in any such observation out of what he calls self-respect, they may not do so. He said that, in that case, the *Congress were quite capable of raising their own points*.[74]

Gandhiji's final advice was, "Do your best according to your lights and leave us to do our best according to the political light".[75]

Purshotamdas left Gandhiji "with a deeper sense of admiration for his clear views and for his consideration for others who work for the country in spite of holding views which may superficially look different".[76] Purshotamdas also felt that Gandhiji's views "were not unreasonable".[77] His understanding, in any case, had been that the Advisers had "agreed to keep out" the political aspect, "reserving it to be taken cognisance of by the Assembly".[78] Birla too, as we saw above, was in favour of respecting the Congress directive, even if it involved refusing an agreement on political grounds.

The Indian capitalists thus went in for the next round of negotiations ready to drop it on political grounds. They would not make any agreement behind the back of the Congress, even if it was economically beneficial to themselves as well as the country. The capitalists had long realized that it was the Congress support which, on the one hand, gave their demands real clout and, on the other, lent weight to their assertion that they were taking positions not based on narrow class interests but national interests.[79] Nevertheless, Gandhiji had reminded them of this aspect in the context of the ongoing trade negotiations: "Since the Congress is the only popular institution, it is necessary that whatever agreement is reached should have the seal of the Congress.... This would prove your integrity and sense of justice."[80]

[74] *Ibid.*, emphasis mine.
[75] *Ibid.*
[76] *Ibid.*
[77] Purshotamdas to G.D. Birla, 29 April 1938, *PT Papers*, fl. 181 (VI).
[78] Purshotamdas to G.D. Birla, 19 April 1938, *PT Papers*, fl. 181 (VI).
[79] See Chapter 2, pp. 54ff. and Chapter 3, pp. 79ff.
[80] Gandhi to G.D. Birla, 18 August 1937, Gandhi, Collected Works, Vol. LXVI, quoted in Chatterjee, "Lancashire Cotton Trade", Chapter 7, p. 497.

However, as it turned out during the negotiations over the next few months, as we shall presently see, the position taken by the British side and the Government of India was such that the capitalists did not find even the economic argument for supporting an agreement with Lancashire too compelling.

The negotiations commenced on the 9 May 1938, with the arrival of the Lancashire delegation in Simla a day earlier. The Indian advisers who had been assured that the British side would be prepared to give "reasonable satisfaction" to the Indian demands, especially regarding that of raw cotton, were surprised when they found "immediately on resumption of negotiations... that the *question of cotton purchase* was one of the stumbling blocks in the way of progress".[81]

The positions of the two sides as they emerged after prolonged negotiations were essentially the following: Lancashire refused to *guarantee* or commit itself to any figure regarding lifting of Indian raw cotton. They only agreed to "sanctions" being applied if 400,000 bales was not lifted and stated that the "objective figure before end of Agreement should be 700,000 bales". Lancashire was unwilling to give any "greater degree of assurance" regarding raw cotton until they knew the Indian final position on Lancashire piecegoods. The Lancashire position regarding piecegoods was that it wanted access in the Indian market up to a figure of 666 million yards, the figure being arrived at by calculating 12.5 per cent of Indian total consumption. Lancashire wanted the duty on piecegoods to be reduced to 11 per cent (i.e., a reduction of 9 per cent) and it was to be further decreased (subject to a minimum limit) if imports from UK fell below 6.25 per cent of the total Indian consumption (i.e., 333 million yards). On the other hand, if imports went above 666 million yards the duty was to be increased by 2.5 per cent every year till imports were brought within the maximum limit.[82]

The Indian position on the other hand was that Lancashire must *guarantee* to pick up 700,000 bales of cotton (this was later modified to 650,000 bales) and efforts must be made to reach the objective figure of 1 million

[81] IBTN, Report No. 13 of Unofficial Advisers, 25 May 1938, *L/E/9/1129*, IOR, London. This report was signed by Purshotamdas, Kasturbhai, G.D. Birla, Liaquat Ali Khan, Datar Singh and Professor W. Roberts, the last two signed subject to a minute of dissent. In a 'Note attached to Report No. 13', Purshotamdas, Birla, Kasturbhai and Liaquat Ali made a scathing critique of Datar Singh and especially Prof. W. Roberts. The latter they said "spared no efforts, fair or otherwise, to support the extravagant demands of the Lancashire Delegation". They said "if the Lancashire Delegation had brought the Professor with them he may have filled that position a little better than his position as an adviser to the Government of India". *Ibid.*

[82] *Ibid.* For a detailed exposition of how the Lancashire proposals were to be worked, see, Angus Campbell, Chairman Lancashire Delegation to Purshotamdas Thakurdas, Chairman, Committee of Indian Official Advisers, 19 May 1938 and 20 May 1938, *ibid.*, Annexures VII and VIII.

bales within 5 years. Further, 65 per cent of the cotton picked up was to be of the short and fair staple variety. As for piecegoods imports, the Indians made it clear that they under no circumstances would agree to giving access to a share or per cent of the Indian market for Lancashire. As they put it, "No country can make a commitment involving the surrender of a definite percentage share of the home market to manufacturers abroad". (The Indians took particular objection to Lancashire calculating the quantity of textiles imports to be permitted on the basis of a share of the Indian market which *included* handloom production.) The Indian proposal was to permit Lancashire imports up to a *fixed figure* beyond which there was to be a "*prohibition*" except for a 5 per cent latitude. The tentative fixed figure suggested was 400 million yards. As for cotton duties, it was said that "a 9 per cent reduction (as demanded by Lancashire) was impossible or anywhere near it". The Indian textile representatives refused to give an exact figure acceptable to them on the ground that Lancashire had not yet agreed to give a guarantee regarding the *quantity* and *quality* of raw cotton that they would lift.

Given these positions and given the fact that the Indian Advisers found that "the position of the Lancashire Delegation was more or less rigid leaving, ...little or no latitude for modification" and that the "gap (was) so wide and the gulf so unbridgeable" between the two positions, the Indian Advisers felt they had no option but "to drop the negotiations".[83]

The Advisers in their Report (No. 13) went on to explain why they had to reject the position of the Lancashire Delegation. They said that it was "the guarantee of a secured market" for Indian cotton, especially short and medium staple, which was "the main attraction to India" for which the cotton textile industry was willing to make a sacrifice. Since Lancashire was not willing to offer any such guarantee, except provide for a very low minimum figure (400,000 bales), the Indian Advisers "failed to realise what was the quid pro quo for which Lancashire was asking the textile industry to make a sacrifice".[84]

[83] The Indian and Lancashire positions discussed above are from IBTN, Report No. 13 of Unofficial Advisers, *L/E/9/1123*, IOR, London. It seemed during the negotiations that Lancashire was willing to consider reduction of duty by 5 per cent provided it could be further reduced by 2.5 per cent if imports fell below the minimum figure. Also Lancashire wanted the duty to be 15 per cent across the board, while the Indian side would agree to only 5 per cent reduction in case of prints where the existing duty was 25 per cent. The main difference of opinion was however on the *quantity* of Lancashire imports to be permitted as we saw earlier. See Note by Mr Streat to Zafrullah Khan, Commerce Member, 21 March 1938, *PT Papers*, fl. 218.

[84] IBTN, Report No. 13 of Unofficial Advisers, 25 May 1938, *L/E/9/1129*, IOR, London. The Indian Advisers had pointed out to the Lancashire delegation that Lancashire was effectively guaranteeing only 400,000 bales while their average consumption over three years ending 1936–37 was greater, roughly 500,000 bales, and in 1936–37 Lancashire had taken 650,000 bales. See Note to Lancashire Delegation by Indian Unofficial Advisers, May 1938, *PT Papers*, fl. 201.

Also, it was pointed out that the Indian textile industry was the largest consumer of Indian raw cotton, "its average consumption in recent years ...(being) over $2\frac{1}{2}$ million bales, which (was) more than *five times* the recent intake of Lancashire". Further, it was pointed out that the low figure (0.4 million bales) that Lancashire was willing to "bind itself to" was "less than the *increase* in consumption of Indian textile industry" during just the year 1937–38, which was likely to be 0.5 million bales. It was therefore said to be "an extremely unwise policy to sacrifice a substantial customer in the interest of a doubtful one".[85]

The Advisers also reiterated their view that the recent increase in the intake of Indian cotton by Lancashire was related to the competitive Indian prices. This was said to be proved by "the fact that in 1937–38, since American cotton (had) become relatively cheaper, Lancashire (had) substantially reduced her imports of Indian cotton". It was therefore argued that if Lancashire's intake of Indian cotton was "to depend partially on the price factor, then a *guarantee* (became) more than ever essential"—a guarantee Lancashire was loath to give. Further, the Advisers reminded the Lancashire representatives that "while Japan (took) nearly 50 per cent of her requirements from India, the United Kingdom (took only) 14 per cent".

Last, while refusing to give "any serious consideration" to "anything like a nine per cent reduction" in tariff duty, the Advisers pointed out that since they met last in London the Indian textile industry was "seriously affected by various additions to the cost of production of a permanent nature". This was because of the pro-labour policies of the Provincial Governments, which involved rise in wages and expenditure in other social welfare measures. The Advisers estimated that "the increase in cost of production due to the decisions of Provincial Governments already taken and likely to be taken might add *more than five per cent to the cost*".[86]

The Representatives of Textile Interests, appointed to advise the Non-Official Committee with regard to the Indo-Lancashire Negotiations (who included H.P. Mody, Haridas, C.V. Mehta, etc.), when informed by the Chairman, Purshotamdas, of the final proposals on both sides, were unwilling to accept the Lancashire demands. They reported: "After giving full consideration to what the Chairman has communicated, we have come to the conclusion that there is such a wide gulf between the demands of the Lancashire Delegation and the limits of possible concessions by the Indian side that we see no likelihood of bridging it".[87]

The Unofficial Advisers reported that they had "no hesitation in supporting the Textile industry in this view". They therefore informed the

[85] IBTN, Report No. 13 of Unofficial Advisers, 25 May 1938, *L/E/9/1129*, IOR, London.

[86] *Ibid.*

[87] Report of the Representatives of Textile Interests appointed to advise the Non-official Committee, 22 May 1938, *PT Papers*, fl. 201.

government that they did not feel that a "voluntary arrangement between the Indian textile industry and the Lancashire cotton interests (was) feasible". It was now left to the two governments to decide the next step regarding a general trade agreement between India and UK. The Advisers, however, wanted the government to publish their reports for information to the public.

Thus, in May 1938, yet another round of negotiation failed and the Lancashire delegation sailed back with the feeling that certain elements, like Birla, "did not really want a settlement or wanted it on impossible terms".[88] The failure of the Lancashire delegation and the Indian Advisers to arrive at a settlement, the Government of India believed, "should not be allowed to delay resumption of negotiations". Zafrullah Khan was to very soon return to UK to reopen negotiations.[89]

Purshotamdas wrote to Zafrullah in London in June 1938, saying that since he might "fix up a trade treaty with UK more or less on final lines" it was his (Purshotamdas's) duty to let him know "certain important requirements of India which had to be borne in mind... before final agreement (was) indicated to UK by the Government of India". Briefly, these "requirements" were: (*a*) Indian *shipping* to have a fair chance in trade with UK; (*b*) Indian banks not to be discriminated against by UK commercial interests; (*c*) no discrimination against policies of Indian insurance companies by UK importers to be countenanced; (*d*) Indian apprentices to be given admission to British factories and Educational and Technical institutions; and (*e*) Indian firms and merchants to have equal opportunities of admission to such commercial bodies as the Baltic Exchange, the Jute Trading Rooms in London, etc., which were known to be very reluctant to admit Indians.[90] Zafrullah Khan's feeling was that it was too late a stage to "raise fresh issues, particularly such as involve no question of a tariff preference and need not, therefore, necessarily be dealt with in a trade agreement".[91] Purshotamdas replied that the Unofficial Advisers had stated their position on tariffs "but that did not mean that (they) had no other suggestion to put forward". He strongly urged Zafrullah to do his best to get India relief on the points raised by him, as without this "any agreement (would) be considered in India as incomplete and unsatisfactory".[92]

Now that Zafrullah Khan had gone alone to negotiate, G.D. Birla warned against Lancashire trying to get a favourable agreement directly with the Government of India bypassing the Unofficial Advisers. He suspected that Lancashire had "greater faith in exacting something from the

[88] See Viceroy, Linlithgow to Secretary of State, Zetland, 19 May 1938, *L/E/9/1125*, IOR, London.

[89] Government of India to Secretary of State, 30 May 1938, *L/E/9/1125*, IOR, London.

[90] Purshotamdas to Zafrullah Khan, 10 January 1938, *PT Papers*, fl. 181 (VII).

[91] Zafrullah Khan to Purshotamdas, 18 June 1938, *PT Papers*, fl. 181 (VII).

[92] Purshotamdas to Zafrullah, 27 June 1938, *PT Papers*, fl. 181 (VII).

Government rather than (getting) something through a Pact entered into willingly". However, he warned them "that their best interest demand(ed) that they…forget the past and give up the habit of getting something from Government over the heads of the people". Also, he made it clear that "if the Government would do something beyond our recommendation, it would not help Lancashire since India would not support such a Pact".[93]

The government as yet had no intention of "going over the heads" of the Advisers. They persisted with the effort to carry the Advisers, and thus hopefully Indian public opinion, with them on any agreement between the two governments. On the other hand Lancashire's assent was seen as necessary too[94] once Zafrullah Khan set about the difficult task of finding a common ground.

On his return from London, Zafrullah Khan met the Unofficial Advisers in Simla on 13 August 1938 and communicated to them "orally the proposals which would be acceptable to His Majesty's Government as a satisfactory basis for a trade treaty". Some of the main items in these proposals put forward by the Board of Trade, UK, were:[95]

(*a*) The United Kingdom would give up preferences in the Indian market over a trade worth Rs 100 million (earlier they were willing to give up only 45 million), the total preferences in 1935–36 being 187.50 million, i.e., now goods worth Rs 87.50 million were to have preferences.

(*b*) The United Kingdom to agree to take a minimum of 500,000 bales of Indian cotton (the last proposal was for 400,000) in the first year, 550,000 the second year and 600,000 in the third and fourth year.

(*c*) Immediate reduction of duty on British piecegoods to 17.5 per cent on prints and 15 per cent on other classes (note the earlier demand was for reduction to 11 per cent). If imports of British piecegoods fell below 350 million yards, duty to be reduced the following year by a further 2.5 per cent. The medium and maximum figures were to be 450 million yards and 550 million yards respectively. Actually Lancashire was agreeable to the minimum, medium and maximum figures being 350, 425 and 500 respectively.[96]

[93] See G.D. Birla to Purshotamdas, 27 June 1938, *PT Papers*, fl. 181 (VII).

[94] See Chatterjee, "Lancashire Cotton Trade", pp. 506ff.

[95] For these proposals see, IBTN, Report No. 14 of Unofficial Advisers, 5 September 1938, *L/E/9/1129*, IOR, London.

[96] By these figures Lancashire meant—if imports went below the minimum figure then the duty was to be reduced by 2.5 per cent if it came up to the medium figure then the duty was to be raised back by 2.5 per cent if imports went beyond the maximum figure then the duty was to be raised to such figure as was necessary to keep them within that limit. Secret Minutes, Economic and Overseas Dept., *L/E/9/1128*, IOR, London.

(*d*) If the offtake of Indian cotton fell below the minimum figure for the year, 25 million yards was to be reduced for every 50,000 bales of the deficit from the minimum, medium and maximum figures (viz., 350–450–550 million yards) of imports of British piecegoods.

The Viceroy had informed Purshotamdas that he believed that Zafrullah had done very well making the British cabinet yield more than was expected and that the Advisers should realize that these proposals were "*final and there was no chance of any further improvement*". Birla in turn informed him that the Advisers were "greatly disappointed at the proposals" and despite their first reaction, which was to say "no", they decided not to do anything "without consulting (their) constituents". He said he "attached great political value to a voluntary pact" as he realized that "if the pact was such as had no goodwill behind it, then it would be useless". The Advisers, he said, "would not therefore do anything that did not carry public opinion with it".[97]

The capitalist leaders now found themselves in a delicate situation on this question. They did not know for sure what the balance of public opinion was going to be regarding the acceptance or rejection of the proposals. For example, Birla reported that Bhulabhai Desai, Jinnah and Mulherkar (Secretary of FICCI) seemed to be in favour of acceptance and probably also the millowners, while Vallabhbhai and Gandhiji seemed to hold the opposite view.[98]

Given this situation, Birla and Thakurdas agreed on the broad immediate strategy to be followed: "Our business is to put forward such a report as will have solid support behind it, and, at this stage, *we do not know whether we will accept the proposals or turn them down*". They were to keep "an absolutely open mind" on this question and "make no commitment". First, they were to make a genuine effort to find out the views of others (that being Purshotamdas's reasoning for postponing any decision on the British proposals) without giving away their own mind in any way. As Purshotamdas put it, "we should now act with great circumspection and should genuinely make an effort to find out which way the bulk of the public opinion lies". Accordingly, he started urgently, though discretely, consulting millowners, eminent businessmen, etc., from all over the country as well as various chambers of commerce, "scrupulously" refusing to

[97] See G.D. Birla to Purshotamdas, 16 August 1938, *PT Papers*, fl. 216, emphasis mine. As Shankerlal of Delhi Cloth and General Mills warned, "The Non-official Advisers are in a most unenviable position.... In case they accept the terms... (and if) the Central Legislative Assembly... does not ratify the agreement it will mean a vote of censure on the Non-official Delegates." He therefore advised previous consultation with the leaders of the big parties such as the Congress and the Muslim League. Shankarlal to Purshotamdas, 20 August 1938, *PT Papers*, fl. 216.

[98] G.D. Birla to Purshotamdas, 16 August 1938, *PT Papers*, fl. 216.

commit any of the Advisers to any opinion. He also proposed to sound the political leaders.[99]

The responses that Purshotamdas received from millowners and business leaders all over the country, throughout August 1938, appeared *generally to be opposed to the terms offered by Britain*. John Mathai, A.D. Shroff and Diwan Bahadur C.S.R. Mudaliar (in consultation with millowners of South India) all felt that since the minimum quota (of 350 million yards) fixed by the British proposals was higher than the recent actual imports of Lancashire, and since it was "extremely unlikely" that even with 15 per cent duty Lancashire would be able to reach the minimum figure, the British proposals would involve the lowering of duty by an additional 2.5 per cent, i.e., within one year the duty would drop by 7.5 per cent (from 20 to 12.5). This they felt was too sharp a drop in too short a time and would cause "serious disturbance" to the textile industry—especially given the fact that the Provincial Governments were putting new burdens on industry through their pro-labour policy. Shroff also warned that "the preference of $37\frac{1}{2}$ per cent (as duty against non-British textiles remained 50 per cent) ceases by its magnitude to be preference and may well be regarded by Japan as deliberate discrimination against her. Thus making the next renewal of the Japanese agreement very difficult indeed."[100]

Shankerlal of the Delhi Cloth and General Mills argued that "the *maximum* offtake of Indian Cotton guaranteed" by the British proposals (600,000 bales) was "even less than our exports to that country in 1936–37", which was 625,000 bales. Similarly, he pointed out, "the stipulated minimum volume of cotton manufactures which India is required to absorb (350 million yds) is about 33% larger than the quantity imported last year" which was 275 million yards. Also, he said, "we are asked to reduce the import duty on British textiles to even below the revenue duty in certain areas" leading in effect to "subsidizing" the import of British cloth. Shankerlal therefore felt the terms proposed were "appreciably weighted in favour of UK interests" and a purely "Commercial Agreement", based on these, would be "most detrimental to the interests of the country".[101]

[99] For the above para, see G.D. Birla to Purshotamdas, 16 August 1938 and 20 August 1938; and Purshotamdas to G.D. Birla, 18 August 1938, *PT Papers*, fl. 216, emphasis mine.

[100] See for the references in this para, Mathai's Note to Purshotamdas attached to Purshotamdas to Mathai, 17 August 1938, A.D. Shroff to Purshotamdas, 26 August 1938, C.S.R. Mudaliar to Purshotamdas, 24 August 1938, *PT Papers*, fl. 216. Mathai and Mudaliar however felt that if sufficient time was allowed, i.e., the additional drop of 2.5 per cent was to occur after two years, then Indian industry could face Lancashire competition even with the duty at 12.5 per cent. Mathai also conceded that after the proposed decrease in preferences to British goods by Rs 100 million (from Ottawa preferences) though by "strict calculation the balance of preference (might) still be a little in favour of the UK" there would be "substantial reciprocity".

[101] Shankerlal to Purshotamdas, 18 August 1938, *PT Papers*, fl. 216.

Gordhandas Goculdas Morarji, President of the Indian Merchants' Chamber, wrote to Purshotamdas, after consulting others like Mathuradas Vissanji, Mr Setalvad, Mr Ghia and Mr Mehta, that the terms proposed by the British interests were "neither suitable nor beneficial in the interests of India" and that therefore the Advisers "should not accept them".[102]

Even the Bombay Millowners Association felt that the position taken by the British side was "*worse* than what it was in Simla in May last" (at which time too they had opposed it, see H.P. Mody's position earlier p. 279). However Krishnaraj Thackersay, Chairman of the Association, stated on behalf of his committee that "if in the opinion of the Unofficial Advisers, the proposals as suggested by Her Majesty's Government (were) favourable to India as a whole, the Textile Industry would *reluctantly* agree to make a sacrifice".[103]

Armed with a generally unfavourable attitude towards the terms offered, the Advisers finally in their last Report (No. 14, 5 September 1938) declared that after giving careful consideration to the proposals of the Board of Trade they were "greatly disappointed to find... a great difference between (their) conception of an equitable trade pact and the proposals of His Majesty's Government". They went on to give a detailed critique of the proposals.[104] They pointed out that they had brought down their demand of Lancashire taking 0.75 million bales of cotton to 0.65 million (when Lancashire had in any case consumed about 0.65 million bales in 1936–37) but even this demand was not met—the proposals quoting 0.5 million bales as the minimum figure. Further, the proposals did not commit Lancashire to taking a specific share in short and medium staple cotton (the Indian demand was 65 per cent). Also, it was pointed out, how the system of sanctions suggested did not in "any sense of the term" amount to a "*guarantee*" that Lancashire would lift even 0.5 million bales;[105] this when it was made clear to the Advisers by the Indian Central Cotton Committee that Lancashire could easily consume the amount of cotton that the

[102] G.G. Morarji to Purshotamdas, 31 August 1938, *PT Papers*, fl. 216.

[103] Note dated 26 August 1938, *PT Papers*, fl. 216, emphasis mine. It appears that Padampat Singhania was in favour of accepting the terms offered with slight modifications. See Purshotamdas to G.D. Birla, 28 August 1939, *PT Papers*, fl. 216.

[104] For criticism of the Board of Trade proposals below see IBTN, Report No. 14 of Unofficial Advisers, 5 September 1938, *L/E/9/1129*, IOR, London.

[105] A hypothetical example was given to prove this point. Supposing Lancashire took 0.4 million bales instead of the required minimum of 0.5 million bales at a time when she exported 425 million yards at 15 per cent duty, then the proposed sanction of decreasing 25 million yards per 50,000 bales of default, from the minimum, medium and maximum piecegoods imports permitted, would make these figures 300, 375 and 450 million yards respectively. Now, because Lancashire exports of cotton goods of 425 million yards was still below the maximum figure the duty sanction of raising the duty by 2.5 per cent would not operate. This meant Lancashire effectively faced no sanction despite taking 100,000 bales less than their own proposed minimum figure.

Advisers wanted them to lift.[106] The Advisers therefore concluded that "the proposals regarding raw cotton do not secure any points which we had recommended". As for the other Indian exports, the situation remained the same, i.e., most of the preferences remained only of insurance value. They therefore said that the proposals did not meet the "cardinal principle" with which they had entered the negotiation; that they should only make an agreement which benefitted Indian export trade, and, through it, the agriculturist.[107]

As for British exports to India, the Advisers stuck to their position that the maximum they could concede was a preference on Rs 30 million worth of goods other than steel and textiles. The gap between this and the British proposals of Rs 82.50 million was still thought to be too high. The demand for yardage of Lancashire goods to be allowed along with a "double dose" of reduction in duty was said to be too excessive. It was pointed out that during the previous five years the average imports of piecegoods from the UK were less than 370 million yards. In 1937–38 they were only 267 million yards and in the "current year" they were not likely to go above 240 million yards. As against this the British government was asking for "a minimum of 350 m. yds. rising up to 500 m. yds. and also a reduction in the duties".[108]

In this context, it was pointed out that the "effective protection" which the Indian textile industry enjoyed, given the 20 per cent duties in force at that time, was only about 12.5 per cent because of the various duties amounting to nearly 7.5 per cent that were imposed on, different articles such as machinery, cotton mill stores and dye-stuffs which the industry had to import. In addition to this, it was claimed that the "labour welfare measures" introduced by the Provincial Governments of, e.g., Bombay, Madras, Central Provinces and United Provinces—areas where the textile industry was located—increased the costs of this industry by between 4 to 6 per cent. Also, the Provincial Governments had not agreed to make any commitment that "if the textile industry (was) called upon to make any sacrifice to enable the Government of India to come to an agreement with the United Kingdom, the Provincial Governments (would) keep in abeyance their contemplated measures for labour welfare".[109] Thus, while a

[106] A note by the Indian Central Cotton Committee showed with detailed figures how between 1932 and 1936 on an average India took about 52 per cent of her total piecegoods imports from the UK while Britain took an average of about only 10 per cent of her total raw cotton requirements from India. The note added that a demand that Britain take 40 per cent of her cotton requirement from India would not be too "fantastic". A note on Indo-British Trade in Raw Cotton and Piecegoods, *PT Papers*, fl. 216.

[107] IBTN, Report No. 14 of Unofficial Advisers, 5 September 1938, *L/E/9/1129*, IOR, London.

[108] *Ibid.*

[109] Purshotamdas had tried to get such a commitment from the Bombay government saying that the textile interests were being asked to make a sacrifice for the sake of the

number of factors were adversely affecting the competitiveness of the Indian textile industry the British government was said to be "taking various steps to put Lancashire industry on a competitive footing" through measures which would "cheapen the cost of Lancashire products".[110]

The Advisers in this overall situation felt that their "acquiescence in voluntarily restricting" the Indian home market (by accepting the British proposals) "would be neither in the interest of the agriculturists nor of the handloom weavers nor of the Indian labour nor of the country as a whole". They therefore were unable to "advise the Government of India to accept the proposals of the Board of Trade". They also informed the government that they had consulted important representatives of the textile industry and other industries, representatives of cotton growers and leaders of public opinion but "nowhere did (they) find the slightest enthusiasm in favour of acceptance of the proposals". They felt that a pact concluded "without the goodwill of public opinion" could hardly achieve the goals they had envisaged at the beginning of the negotiations. The Unofficial Advisers, therefore, with "regret" rejected the British proposals, in what was to turn out to be their last report.[111]

After definitely rejecting the British proposal, the Unofficial Advisers again outlined their set of proposals which they felt could be an equitable basis for a pact. The *first* time the Indian Advisers mentioned a particular figure for the reduction of tariff duty that would be acceptable to them was in this, their last report. Their overall proposals were: (*a*) all preferences enjoyed by India in the British markets to continue; (*b*) preferences enjoyed by Britain in Indian markets which were "valued at Rs 19 cr. [190 million]" were to be reduced to Rs 30 million; (*c*) UK to guarantee offtake of Indian cotton to the extent of 0.65 million bales per year with the objective of 1 million bales, 65 per cent of the cotton taken was to be of short and fair staple; (*d*) regarding piecegoods, *a 5 per cent duty reduction* all round bringing the tariffs to 20 per cent on prints and 15 per cent on other goods (the British proposal was 17.5 per cent and 15 per cent respectively); if after a year Lancashire imports went below the minimum figure of 200 million yards then another reduction of 2.5 per cent in duties; if imports reached the medium figure of 300 million yards then the 2.5 per cent reduction was to be restored; if imports reached the maximum figure of 400 million yards

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agriculturist and that if no agreement occurred the agriculturist would suffer. But if they made the sacrifice then they would not be able to "stand any more burden" that the Provincial Government might put on them. See Purshotamdas to H.V.R. Iengar, ICS, 18 August 1938, *PT Papers*, fl. 216.

[110] IBTN, Report No. 14 of Unofficial Advisers, 5 September 1938, *L/E/9/1129*, IOR, London.

[111] *Ibid*. The report was signed by Purshotamdas, G.D. Birla, Kasturbhai Lalbhai, Liaquat Ali Khan and K.C. Gajapathi. Datar Singh and E.C. Benthall submitted a minority report.

the government was to take "effective" measures to check further imports (the British proposal for the minimum, medium and maximum figure was 350, 425 and 500 million yards respectively); (*e*) Indian Shipping, Insurance and Banking not to be discriminated against; and (*f*) Board of Trade to make arrangements for training facilities for apprentices from India.[112]

After this last, the fourteenth report, the Unofficial Advisers were not involved in the negotiations.[113] The Government of India and Her Majesty's Government continued the negotiations.

In the meantime, however, within two months of the last report of the Unofficial Advisers pressure was building up in India for the government to quickly bring the negotiations to a conclusion. The British government was accused of deliberately delaying an agreement, in order to enable Britain "to reap the advantage of preferential tariffs granted them under the Ottawa Trade Agreement", despite "the Assembly's verdict about the immediate termination of the Agreement and the strong Indian public opinion against it". Also, it was pointed out that while the continuation of the Ottawa Agreement restricted "India's freedom to conclude bilateral agreements with other countries, Britain itself (was) free to conclude Trade Agreement irrespective of their effects on India".[114] The Government of India yielded by agreeing to give an assurance that the Ottawa agreement would not be continued beyond the end of the next budget session, i.e., March–April 1939.[115]

The Federation demanded that the terms of the new agreement be "announced in the Legislature early" (by the beginning of February) so that the various interests concerned had the time to examine and comment on the terms.[116] The protracted negotiations between the Commerce Department of the Government of India and the British government, where the former tried to haggle hard to get the Board of Trade to agree to terms which had at least some chance of being accepted by the Assembly, prevented an early agreement.[117] Eventually an agreement was signed on 20 March 1939 (between Oliver Stanley, President Board of Trade and Firoz Khan Noon, Indian High Commissioner)[118] and it was placed before the

[112] *Ibid.*

[113] See Purshotamdas in FICCI, *AR* 1939, p. 81.

[114] See Presidential Speech of Sir Rahimtoola M. Chenoy, FICCI, *AR*, 1938, p. 5; Indian Chamber of Commerce (Calcutta) to Commerce Department, Govt. of India, 2 December 1938, *PT Papers*, fl. 181 (VII).

[115] See Government of India, to Secretary of State, 3 December 1938, *L/E/9/1128*, IOR, London.

[116] FICCI to Commerce Dept., Government of India, 30 January 1939, *PT Papers*, fl. 181 (VIII).

[117] See, for example, Government of India, Commerce Dept. to Secretary of State, 10 and 12 February 1939; Viceroy to Secretary of State, 10 February 1939, *L/E/9/1129*, IOR, London.

[118] *L/E/9/1129*, IOR, London.

Assembly for approval on 27 March, just a few days before it was to come into effect.

Even before the terms of the agreement were made public, the government prejudiced the chances of its acceptance by imposing an additional duty of 1/2 anna per pound on Indian imports of long staple cotton (thus raising the costs of the indigenous textile industry by 3 to 4 per cent) without putting any "countervailing duties on imports of textiles". This act of the government made Purshotamdas wonder "whether the Government of India wanted a reasonable Trade Treaty at all", and he wrote to G.D. Birla on 18 March that the government "have not left us any option but to protest against the terms" of the agreement.[119] Purshotamdas was to say later that the Finance Member, using the excuse of having to square his budget, levied this duty on raw cotton and thus gave "by the backdoor" an "additional advantage to Lancashire" over and above what was conceded in the agreement, something which the Commerce Member could not possibly do, basing himself on the recommendations of the Unofficial Advisers. He added, "it has to be made abundantly clear that this sort of device of giving gifts to foreign countries is a thing which India can see through; it is a thing which we resent and which cannot meet with the approval of a legislature of any kind which has a sense of self-respect".[120]

The terms of the agreement were made available to the public on 21 March 1939. Immediately, on 23 March, four days before the agreement was to be placed before the Assembly, FICCI produced a detailed document which argued why the Legislative Assembly should *not* ratify the agreement.[121] It was argued in this document that given the fact that India was a debtor country, it was greatly disappointing that the agreement gave no attention to the fact that India made large invisible imports from the UK in the form of shipping, banking and insurance services, and that these invisible imports were not taken into account "in balancing India's trade accounts with the United Kingdom" as was the "common practice while negotiating trade pacts between two countries". Also, they particularly deplored the fact that the Government of India "failed to utilise" the trade negotiations to secure "a specific share" of the carrying trade between India and UK for Indian shipping.

Second, apart from pointing out that the value of the general preferences offered to British imports into India (about 76.80 million) was far in excess of the figure recommended by the Unofficial Advisers (Rs 30 million), it

[119] Purshotamdas to M.P. Gandhi, 30 March 1939 and Purshotamdas to G.D. Birla, 18 March 1939, *PT Papers*, fl. 181 (VIII).

[120] Purshotamdas, 8–9 April 1939, in FICCI, *AR*, 1939, pp. 82–85.

[121] Representation submitted by the Committee of the Federation to the Government of India, conveying their views on the new terms of a Trade agreement between India and the United Kingdom, 23 March 1939, FICCI, *Corresp.*, 1939, pp. 8–18, also in *PT Papers*, fl. 216. The account in this and the next two paragraphs is from this document except where indicated.

was said "the continuance of these preferences in respect of... important articles may preclude India entering into any trade agreement with continental countries, as there would be nothing left to be offered to them in exchange for our exports".

Third, as for the general preferences to Indian goods in the British market, the view often expressed by the Unofficial Advisers that most of the preferences were of no real value to India was reiterated, and it was argued that under the new terms the margin of preference enjoyed by chrome leather, woollen carpets and rugs and jute manufactures was reduced when these were "the only commodities in which India secured effective benefits... under the old scheme".[122]

The main criticism of the Agreement was, however, over the *Cotton Clause* or Article 10 of the Agreement. This clause made essentially the same stipulations, with some minor qualifications, as the Board of Trade offer of August 1938 which the Unofficial Advisers had rejected. (See p. 281) The main features of this clause were the following:[123] The existing duty (on imports from Lancashire) of 20 per cent on most cotton goods and 25 per cent on printed goods was to be reduced to 15 and 17.5 per cent respectively, in order to enable Lancashire imports to reach a minimum of 350 million yards to a medium of 425 million yards and to a maximum limit of 500 million yards. If imports fell below 350 million yards, the duty was to be reduced by another 2.5 per cent. Once imports reached the medium figure, this 2.5 per cent reduction would be restored. If the imports reached the maximum figure, the Government of India would be free to "raise the duties on imports from Lancashire to such an extent as would ensure that their imports shall again be brought below the maximum figure and these extra duties... will not be taken off till the medium figure" was reached. As against this the UK would take 500,000 bales of Indian raw cotton in 1939, 550,000 bales in 1940 and 600,000 bales thereafter till the agreement was in operation. The penalty for deficiency in the offtake of Indian cotton would be a reduction by 25 million yards (in the minimum, medium and maximum yardage of permitted Lancashire imports) for every 50,000 bales or fraction thereof of this deficiency. Further (and these were the new elements), if the offtake of Indian cotton fell below 400,000 bales in 1939 and 1940 and 450,000 bales thereafter, it would be "open to the Government of India after consultation with His Majesty's

[122] The Government of India strongly objected to this statement of the Federation arguing (it appears with some validity) that the Federation claim was false and that margin of preference in chrome leather, woolen carpets and rugs and jute manufactures was not reduced. Commerce Department, Government of India to FICCI, 4 April 1939 and FICCI to Com. Dept., 11 April 1939, FICCI, *Corresp.*, 1939, pp. 16–23.

[123] See Sir Muhammad Zafrullah Khan, Member for Commerce and Labour, *LAD*, Vol. III, 27 March 1939, pp. 2830–31. The details of the clause given below are taken from the above source.

Government[124] to increase the duties on United Kingdom piecegoods above the basic rates to such extent as the Government of India may determine". On the other hand if UK took more than 750,000 bales the duty charged on *printed* goods would be brought down to the level of the duty charged on other cotton goods (i.e., the 2.5 per cent difference would be abolished) and if the import of printed goods increased as a result then it would not be counted up to 25 million yards for the purpose of determining whether or not the medium or maximum figure had been exceeded.

A thorough critique was made of this Cotton Clause by Indian capitalists using more or less the same arguments as had been used by the Unofficial Advisers earlier particularly in their last report while rejecting the Board of Trade offer of August 1938.[125] It was said that the Cotton Clause was "not acceptable in the larger interest of the country" and that it made it appear as if "the main object underlying the whole Agreement" was "to help Lancashire... regain its lost market in India at the expense of the indigenous textile industry and against the views of the Unofficial Advisers who were associated with the negotiations".

It was pointed out how the agreement gave an effective undertaking for Britain taking only 400,000 bales of cotton in 1939 and 1940 and 450,000 bales subsequently, a figure which was far *less than their actual takings over* the last few years, it being 550,000 in 1935–36 and 650,000 in 1936–37. "On the other hand", it was said, "India is asked to guarantee, with the aid of effective sanctions, the intake of 425 to 500 million yards of cotton textiles[126]—a quantity which is far in excess (more than double) of the actual quantity of UK imports into India for the year 1937–38, which is 267 million yards".

It was said that "the protective duty of 25%" against British piecegoods which was won "after years of agitation by the indigenous industry and which was already reduced to 20% in June 1936 (was) now sought to be brought down by the new Agreement to 15% with immediate effect" and at the end of the year to 12.5 per cent if the imports did not reach 350 million yards (which they were not likely to), "thus reducing the original protection

[124] Zafrullah Khan, the Commerce Member, clarified that "consultation with His Majesty's Government" did not mean "concurrence in the action" found suitable by the Government of India, i.e., "The Government of India will be free, after hearing what His Majesty's Government has to say to come to their own decision, as to the level of the duties which the situation justifies". *LAD*, Vol. III, 27 March 1939, p. 2831.

[125] The critique of the Cotton Clause below is based on the following except where indicated: FICCI Memorandum, 23 March 1939, FICCI, *Corresp.*, 1939, pp. 8–18; and Indian Chamber of Commerce, Calcutta, hereafter ICC (Cal.), to Government of India, Commerce Dept., 26 March 1939, *PT Papers*, fl. 216.

[126] As the current imports were less than the minimum figure of 350 million yards a drop in duty of 7.5 per cent (from 20 to 12.5%) was to be maintained till the medium figure of 425 million yards was reached. Once this figure was reached a duty drop of 5 per cent (from 20 to 15) would be maintained so long as imports remained between 425 to 500 million yards.

granted after an exhaustive enquiry by and on the recommendation of the Tariff Board by 50%".[127]

This lowered tariff, it was argued, would lead to a situation where the manufacturers of fine cloth who faced direct competition with Lancashire would receive no protection "either by way of revenue or protective duty". This was because "the doubling of the import duty on (long staple) raw cotton" from 1/2 anna to 1 anna per pound would impose "an *extra* burden of 4 per cent" on the cost of production of fine count cloth, i.e., the cost on this count would now increase from 4 per cent to *8 per cent*. Add to this the "duty on dye-stuff, chemicals, stores and machinery and other semi-finished materials required in the process of manufacturing fine cloth", which amounted to about 3 to 4 per cent, and the likely import duty of 12.5 per cent on Lancashire piece goods at the end of the first year of the proposed agreement meant that any protection would be virtually completely offset.[128]

The new agreement was placed before the Legislative Assembly for its approval on 27 March 1939. Zafrullah Khan, the Commerce Member, who over the long period of close association with the Indian Unofficial Advisers, spanning nearly two years, had earned their ungrudging respect,[129] nevertheless presented the government case very ably.[130] He pointed out how beginning from a position at the commencement of the negotiations when the United Kingdom demanded a *wider* margin of preferences than that enjoyed by them under the Ottawa agreement, the Indian side got the British negotiators to agree to "drastically reduce the preferences that (Britain), at present, enjoyed". In the agreement Britain reduced the number of items receiving preference from 106 to 20 and the value of the goods receiving preferences by about *110 million* from about 187.50 million to 77.50 million (including Burma). As a result, "out of (Britain's) total imports into this country they... enjoy(ed) preferences only over 16–20 per cent, whereas out of (India's) total exports to that country, the concessions under the Agreement", which preserved almost all the preferences received under the Ottawa Agreement, would apply to 82 per cent. Further Zafrullah Khan added that looking at it another way it meant that "the trade covered by the preferences which the United Kingdom (would) enjoy under the new agreement (was) only 12 per cent of *our* total imports," i.e., India was left free to bargain in trade agreements with other countries in respect of 88 per cent of her imports, thus meeting a persistent demand of the Indian leaders.

[127] Actually the tariff board had recommended a protective duty of 20 per cent. The reduction from 25 to 20 per cent in June 1936 was because of the removal of the revenue surcharge.

[128] See fn. 125.

[129] See Purshotamdas Thakurdas, FICCI, *AR*, 1939, pp. 80–82.

[130] Zafrullah Khan's views in this and the next three paragraphs are from, *LAD*, Vol. III, 27 March 1939 and 28 March 1939, pp. 2826–38 and 2987–3002.

Also, he pointed out how the UK, India's largest customer, was increasing her share of India's exports from about 27 per cent before Ottawa to about 34.7 per cent in the current year (1939) and, conversely, how the UK's share in India's imports was declining from about 41.3 per cent in 1933–34 to only 29.9 per cent in 1937–38. The result was that from a situation where India used to have an *adverse* balance of trade with UK (in merchandise) of "between 30 and 40 crores [400 million] of rupees, ten to fifteen years ago, ...in the last three years (India)...had a *favourable* balance of trade with the United Kingdom amounting, on the average, between 10 and 18 crores".

Regarding the critical Cotton Clause, Zafrullah pointed out the background of the decline of British imports of cotton piecegoods from 3,000 million yards in the First World War days to an average of 1,400 million yards between 1923–30, to 334 million yards in 1936–37 to 266 million yards in 1937–38 and to only 176 million yards in the 10 months of the current year 1938–39. On the other hand, the Indian raw cotton offtake by Britain had increased from an average of 215,817 bales in the pre-Ottawa years to an average of 415,532 bales between 1933–38, with offtake in 1936 and 1937 averaging nearly 550,000 bales (he also claimed that 61.2 per cent of the raw cotton exports in 1938 were short staple, which he described as "7/8 of an inch staple and under", a claim which was hotly disputed by the Indian capitalists).[131]

Given the alteration in the overall balance of trade in India's favour, the positive developments concerning the trade in raw cotton and textiles and the fact that Indian textile industry now had preponderant control over the Indian market producing about 4,000 million yards, Zafrullah Khan argued that a concession of a couple of hundred million yards to Lancashire was not excessive. "After all", he pleaded, "there can be no agreement between two countries conferring benefit only to one side". He also made the argument which Birla and Purshotamdas had made to Gandhiji that if there was no agreement the Tariff Board would certainly grant a reduction in duty without any quid pro quo, such as an obligation to lift cotton.

The government contention was opposed in the Legislative Assembly by the Congress representatives as well as all shades of Indian business opinion including Cowasji Jehangir[132] and H.P. Mody.[133] Mody argued that Britain by reducing the preferences received by her by 110 million (while India continued to retain virtually all the preferences), did build up a case for demanding a quid pro quo. He felt that if, as the Unofficial Advisers had argued, the bulk of the preferences received by India were of little use to her then the Advisers should not have insisted on retaining all the

[131] See H.P. Mody, *LAD*, Vol. III, 28 March 1939, pp. 2945–46.
[132] See *LAD*, Vol. III, 28 March 1939, pp. 2966–69.
[133] For Mody's views below see, *LAD*, Vol. III, 28 March 1939, pp. 2943–48.

preferences and given the opportunity to the Board of Trade to argue that "We are retaining all your preferences, you are curtailing most of ours, therefore give us a *quid-pro-quo*". Mody, however, agreed with the Unofficial Advisers and the other Indian capitalists that the quid pro quo demanded through the Cotton Clause was not favourable to India.

Mody pointed out how through this clause Lancashire could get away with importing about 400,000 bales of raw cotton (i.e., 100,000 below the promised minimum figure) despite the sanctions,[134] i.e., she would not import any more than what was her average offtake over the last "five or six years". Also, Lancashire was taking the varieties of cotton for which India had a ready market, and had not committed to take the short and fair staple variety of cotton in which India was *surplus*. Thus Lancashire did not "confer any special advantages on the Indian cultivator" either in the quantity or the quality of cotton picked up by them. But nevertheless the Agreement conceded practically 7.5 per cent drop in import duty against Lancashire (5 per cent plus 2.5 per cent if imports did not reach the minimum figure, which was likely). This left Indian textile industry only with a duty of 12.5 which, he argued, was too big a sacrifice. He pointed out that as against this 12.5 per cent duty the handicaps faced by the textile industry added up to a higher figure. The recent duties on cotton yarn (which Cowasji Jehangir called "a monstrous act of injustice")[135] put a handicap of 8 per cent; the increase in wages and taxes that occurred in the last 12 months (imposed by the Provincial Government) added a handicap of 5 per cent; and another 2 to 3 per cent was the handicap due to duties on stores, machinery, etc. The total handicaps added up to 15 or 16 per cent. Thus, argued Mody, the agreement could lead to a situation where the textile industry not only had no protection but was "actually making a present of $2\frac{1}{2}$ per cent" (i.e., virtually giving a subsidy to Lancashire). Mody, therefore, could not "possibly accept (such) an agreement which involved so much sacrifice to a national industry" without compensating commensurately other interests such as the cotton growers.

B. Das, Manu Subedar, Cowasji Jehangir all condemned the agreement reiterating most of the criticisms made by the Unofficial Advisers or the FICCI. The Congress leaders in the Assembly like Satyamurthi and Bhulabhai Desai also condemned the agreement again using more or less the same line of reasoning as the Unofficial Advisers. Satyamurthi said that if the agreement had benefited the cotton growers in proportion to the sacrifices demanded of the textile industry then the agreement could be supported—but such was not the case. He contrasted this agreement with the one with Japan where Japan had to "take one million bales as against

[134] Mody used similar arguments to show this as used by the Unofficial Advisers in the Report No. 14. See fn. 105 in this volume.

[135] *LAD*, Vol. III, 28 March 1939, p. 2969.

an import of 283 million yards whereas Lancashire was being offered far more yardage with a far smaller commitment to lift raw cotton".[136]

An interesting variation was the sudden and significant change in the position of the Muslim League. Liaquat Ali Khan, as noted above, voted with the majority of the Unofficial Advisers (i.e., Purshotamdas, Birla, etc.) right up to the end, i.e., the 14th Report of 5 September 1938. In March 1939, in the Assembly, Jinnah, it appears to me for the first time, took an aggressively communal position even on an economic issue such as the proposed trade agreement. This was quite uncharacteristic of positions taken by him on earlier such occasions, viz., the Ottawa Pact when it was Jinnah's amendment which had led to the denouncing of the Pact in the Assembly in 1936, with the support of the Congress and the Indian capitalists. (See Chapter 7.) Jinnah's approach now was to ask: "Where is the interest of Muslims in this business... how are we affected?" He argued: "95 per cent of the interests in this Agreement is that of the Hindu capitalists and non-Muslim capitalists.... This is a fight between British capitalists and mainly Hindu capitalists.... The Congress are speaking on their (Hindu capitalists) behalf". He went on to add: "The position of the Muslim League in this matter is this... 'settle the matter between yourselves and I wish you luck'. We propose to remain neutral."[137]

However, the government motion that the Trade Agreement be approved was defeated in the Legislative Assembly by 47 to 59 votes despite the Muslim League group abstaining. Only three elected Indian members voted for the motion.[138] The Government of India expressed its doubts to the Home Government about putting the agreement in force despite the Assembly verdict. They argued that the Assembly verdict was a result of the Congress Party voting in "obedience to (the) High Command", which controlled governments of seven provinces. Their apprehension now was "that implementing of the Agreement contrary to the vote of Assembly" might, under Congress provocation, "lead to some (form of) concerted action by interests affected, which though primarily directed against

[136] See Satyamurthi, B. Das, Manu Subedar, Cowasji Jehangir and Bhulabhai Desai in *LAD*, Vol. III, 27 and 28 March 1939, pp. 2845–51, 2871–74, 2886–91, 2967–69 and 2969–76. Interestingly, V.K.R.V. Rao, writing immediately after the agreement was put into effect (in April 1939) in a detailed article made much the same critique of the agreement as made by the Unofficial Advisers, FICCI and the Congressmen. He also made the contrast with Japan—pointing out that the amount of Cotton which the UK would take for each unit of textile coming into India was one-third of what Japan was asked to take in the Indo-Japanese Trade Agreement. Rao's suggestion was that the rest of the agreement could be accepted if the Cotton Clause was dropped. V.K.R.V. Rao, "The Indo-British Trade Pact", *The Indian Textile Journal*, April 1939.

[137] The timing of the shift in Jinnah's position is significant. After the election debacle of 1937 when the Muslim League found its hold over the Muslim public very weak and small the party met in 1938 and took a conscious decision to adopt an aggressive (as opposed to the earlier relatively liberal) stance. See, Chandra, *Communalism in Modern India*.

[138] *LAD*, Vol. III, 28 March 1939, p. 3004.

Lancashire goods might extend to (whole) range of British imports". However, if the Board of Trade, "after full consideration of the position", was of the opinion that the "Agreement should be put into force", the Government of India was willing to do so "despite difficulties" they would have to face in the Legislature.[139] The Secretary of State informed the Government of India that the Board of Trade recognized the "risks involved in putting the trade Agreement into force despite the vote of the Assembly", but nevertheless felt "these risks must be taken".[140] The Government of India yet again took its direction from the Home Government and took measures to give effect to the new agreement against popular verdict. The agreement was to remain in force till 31 March 1942 but because of the intervention of the war, it continued till the end of the War.

The FICCI in a unanimous resolution condemned the action of the Government of India "circumventing the recommendations of its non-official advisers directly and indirectly and also in overriding the clear verdict given by the Assembly against the trade treaty as proposed by the Government of India". Partially confirming the government fears, the FICCI further recorded its "firm conviction that any trade treaty imposed on India against the wishes of the accredited representatives can but only estrange relations between the two countries" and warned the Government of India "against persisting in giving effect to the agreement in its present form".[141]

A few issues stand out while reviewing the protracted negotiations leading to the Indo-British Trade Agreement. For example, it was significant that on this occasion all the major strands of the Indian capitalist class (including Mody and BMOA) converged to condemn the agreement. This cannot be explained only by looking at the terms of the agreement. It was not as if the terms of this agreement were poorer than Ottawa or the Mody–Lees Agreement (in which cases the capitalists took divergent positions) and therefore the capitalists were unanimous in condemning it. On the contrary, by all accounts, a harder bargain was struck in this agreement than in the earlier ones. There were perhaps several other factors which contributed towards this near unanimity.

The political climate in 1939 was substantially different from the early 1930s. The ideological hegemony of the Congress over Indian civil society including over the Indian capitalist class had deepened. The Congress acquiring provincial power must have increased its prestige considerably among the capitalists. It is therefore likely that the Congress taking a position against the agreement had a greater impact on the class as a whole this time than it had on earlier occasions.

[139] Commerce Department, Government of India to Secretary of State, 29 March 1939, *L/E/9/1129*, IOR, London.

[140] Secretary of State to Government of India, Commerce Department, 30 March 1939, *L/E/9/1129*, IOR, London.

[141] FICCI, *AR*, 1939, p. 101.

Also, the relative bargaining position of the Indian economy vis-à-vis Britain had improved considerably by the late 1930s—viz., the complete reversal of the balance of trade with UK, it now being in India's favour; the rapid import substitution by Indian industry mainly at Britain's cost, as in textiles; the rapid growth in the home market; and the growing shift in the Indian capitalists' as well as the agriculturists' dependence on foreign to domestic markets, etc.[142] All this contributed to the increase in the self-confidence of the Indian capitalist class. Drawing strength both from the improved economic bargaining position and the increased clout of the Indian National Congress, the capitalists were now less willing to make such concessions to Britain which a section of the class had a few years earlier felt to be necessary.

Further, clearly the "radical" section of the Indian capitalist class, represented by the FICCI, had greatly improved its bargaining position with the government and (partially consequently) had increased its influence over other sections of the class. After all, this time, unlike on earlier occasions, the government recognized the necessity of carrying the FICCI or what they called "PT, Birla and company" with them, rather than rely on the support of "moderates" like "Mody and Jehangir" or try to "split" the FICCI by engineering breakaways such as that of Shanmukham Chetty (see pp.252–53).This naturally contributed to no strong opposition emerging to the dominant view of the capitalist class represented by the FICCI.[143]

Another important aspect of this negotiation and agreement was the hard and effective bargaining done by the Indian side. The Indian capitalists bargained taking the already greatly deteriorated position of Britain, especially Lancashire, in the Indian markets as the *base* and then asking for a quid pro quo for any concession which restored even marginally the British position. They refused to countenance the British point of view which tried to highlight the deterioration in the British position over the inter-war period and tried to bargain on the basis of the starting point. In

[142] It was, for example, repeatedly pointed out while criticizing the Lancashire proposals that the Indian textile industry supplied the bulk of the Indian market and were the most important consumer of Indian raw cotton. Therefore making a concession to Lancashire in the name of the Indian agriculturists and at the cost of the Indian textile industry was described as "an extremely unwise policy... sacrificing a substantial consumer in the interests of a doubtful one". See IBTN, Report No. 13 of Unofficial Advisers, 25 May 1939, *L/E/9/1129*, IOR, London.

[143] This aspect may be surmised from the following comment of H.P. Mody regarding the Indo-British Trade Agreement. He said: "dispassionate consideration of the agreement has been rendered somewhat difficult", by the "procedure" chosen by the Government of India. "The Government deliberately chose as their advisers some of the most eminent leaders of commerce and industry in this country (Purshotamdas, Birla and Kasturbhai)...(knowing) that these leaders were determined opponents of the Ottawa Pact.... It becomes a little difficult for us to discard the advice which has been tendered by men chosen by the Government themselves." *LAD*, Vol. III, 28 March 1930, p. 2943.

concrete terms this meant, for example, that the fact that Lancashire exports fell from an average 3,000 million yards in the pre-First World War years, to an average of 1,400 million yards between 1923–30 to 176 million yards in the 10 months of 1938–39 was sought to be used differently by both sides. The Indians, taking 176 million yards as the base, succeeded in calling even a demand for allowing Lancashire 350 million yards in the Indian market as exhorbitant as it would increase her share by 100 per cent,[144] smothering the British tale of woe pointing at how the Lancashire markets had shrunk from 1400 to 175 million yards in less than a decade, a drop which was *seven times* the increase asked for (from 175 to 350 million yards)!

Britain was also pursuaded to greatly whittle down her demands in other areas too. For example, as we saw above, starting from a position where Britain wanted to increase the preferences received by her in Indian markets, it was forced to drastically reduce them over stages first by 45 million, then 100 million and eventually 110 million. On the other hand, the Indian Advisers through prolonged negotiations attempted to wrench concessions from Britain in return for a "sacrifice" which actually cost them little and at times nothing. For example, it was only in the fourteenth report after nearly two years of hard bargaining that the Indian Advisers agreed to reduce the import duty on Lancashire goods by 5 per cent, when all along they believed that the Indian textile industry could easily face Lancashire with this lowering of duty and in fact could stand even a 7.5 per cent decrease if it was given a little time to adjust. (See fn. 100 and pp. 265ff.)

It is not surprising therefore that the British press created a huge outcry when the terms of the agreement were made public. The Indians were called "intolerably hard bargainers" and the President of the Board of Trade informed the British cabinet that "looked at purely from the trade point of view the treaty was unfavourable to us".[145] The conservative historian, I. Drummond, carried away by this mode of thinking, has even argued that the agreement, especially the Cotton Clause, was a "capitulation" on the part of the British, putting India in a situation of "exploiting" Britain.[146]

This, however, was not true. It was not a "capitulation" by Britain, but a situation where Britain faced by its own declining competitiveness was not able, as effectively as in the past, to use the Indian colony to bail her out.[147] And this new situation was resented. As Purshotamdas, while

[144] See, for example, Indian Chamber of Commerce, Calcutta to Commerce Department, Government of India, 26 March 1939, *PT Papers*, fl. 216.

[145] Extracts from Cabinet Conclusion, 15 March 1939, *L/E/9/1129*, IOR, London.

[146] See Chapter 7, fn. 6.

[147] Also, as we saw above (e.g., Chapter 7, Section I) the British financial interest of ensuring remittance meant that India had to maintain an export surplus even at the cost of an adverse balance of trade for UK with India.

welcoming the comments in Britain that the Unofficial Advisers "drove a hard bargain" as a "compliment", pointed out: "the estimate of these gentlemen in UK regarding the hardness of the bargain may be very much vitiated by the fact that they had till now everything for themselves according as they wanted".[148] Not finding the object of one's oppression as readily "available" as in the past could certainly seem like "exploitation" to those who had been used to it for long.

[148] FICCI, *AR*, 1939, p. 84.

NINE

Tariffs, Trade and Industry IV: 1939–47

I. Introduction

The period 1939–47, the last phase of British rule in India, began with the hope of a major industrial breakthrough in India. Very soon, however, these hopes were belied, given the cynical use made by the colonial government of the instruments of state policy, whether monetary or fiscal or any other, to buttress imperial interests at the cost of India. The Second World War, which was seen in India as an opportunity for rapid development, turned out to be yet another occasion, though perhaps the most costly in human and developmental terms, when Indian interests were subordinated to that of British imperialism—and even that of the white colonies—all in the name of helping the war effort.

With the end of the war approaching, a new international economic order to organize international trade was in the offing. This was likely to be an order which threatened to be skewed heavily in favour of the advanced countries. India, with the self-confidence of imminent independence and the anxiety of what position independent India would have in the new economic order, was to put up a spirited fight to protect her position as far as possible.

The Indian capitalists were among the first to point at the potential for rapid industrial development provided by the war. They kept up a consistent though a losing battle with the colonial government to try and ensure that this potential was not dissipated. They were also quick to warn against the dangers of an international settlement regarding foreign trade unfavourable to the underdeveloped countries, and led a campaign on this question. In this chapter we will look at the Indian capitalists' position on all the above issues. A very important and fascinating aspect—that of the gallant efforts made by Indian entrepreneurs to enter the then frontier areas of industry such as automobile, aircraft manufacture, shipbuilding

and the equally obstinate refusal of the colonial state to allow them to grow in these areas—has to be basically omitted from this study as it would merit another fullscale work.

II. The War as Opportunity

The Indian capitalists saw the war as a "magnificient opportunity for the development of industries". They thought as the FICCI President, C.S.R. Mudaliar put it, that it would provide "the necessary stimulus for a big forward drive towards industrial expansion". Apart from helping industrial growth, it was said, "for a country like India which is far away from the actual theatres of warfare, a great War like the present is... expected to serve as a stimulus for all round economic development", compelling her to move in the direction of a "self-sufficient economy".[1]

The capitalists had correctly analyzed why the war could have this positive impact on a country like India—to some extent anticipating the theory of how the "loosening of the links" with imperialism during crisis such as the wars enabled the colonies to register significant spurts of growth.[2] First, it was seen that the dislocation in normal trading channels would give a boost to Indian indigenous production. "Imports from the enemy or enemy-occupied territories are cut off and those from the neutrals and the allies are seriously curtailed due to the shortage of freights". Thus in the absence of "severe foreign competition", which obtained during peacetime, Indian industries could, during the war period, enter a phase of rapid import substitution and also "consolidate their position" in order to be "better equipped to face foreign competition after the cessation of... hostilities". (FICCI President, Mudaliar, added that the depreciation of the rupee in terms of foreign currencies like the Dollar or the Guilder, would also contribute towards diminishing the threat of foreign competition.) The dislocation of foreign trade was also expected to lead to accumulation of "surplus stock" of agriculture commodities which could be used profitably to produce manufactured goods in India whose imports had also been impaired.[3]

[1] For the capitalist view in this and the following three paragraphs, except where indicated, see, Press Statement by President of FICCI, C.S.R. Mudaliar, 29 January 1940, FICCI, *Corresp.*, 1939, p. 283; C.S.R. Mudaliar's speech, FICCI, *AR*, 1939, pp. 12–13; and "Note on Business Opportunities During the War", prepared by the "Statistical Department" of Tata Sons (most probably the note was drafted by H.P. Mody), undated, *H.P. Mody Papers*, undated speeches and writings, fl. 14, emphasis mine.

[2] See Chandra, "Colonialism and Modernisation", for a demonstration of this theory for India, during the period of the two wars and the Great Depression.

[3] See FICCI, *Proc. of EC*, 1940, pp. 21–22.

Second, it was said that the "war purchases" or the "war-demand from the Allies for... raw-materials and manufactures" would give "a fillip" to existing industries and the export trade, as well as act as a "stimulus" for establishing new industries. Further, export markets, where India was unable to compete with advanced countries earlier, might once again be opened to her, the European war providing "a good opportunity for capturing those markets".[4]

The experience of the First World War was recalled and it was pointed out how it was "responsible for a large expansion of Indian industries, especially the cotton and the jute textiles, and the iron and steel and for the development of... export trade". C.S.R. Mudaliar even said: "We owe our present industrial progress mainly to the fillip given by the war of 1914–18." However, it was to the experience *after* the First World War that the capitalists pointed as a warning and demanded that such conditions not be repeated. They pointed out how, with the "restoration of 'normal' conditions" and the reemergence of "severe foreign competition", many small industries which had come up during the war just "disappeared".[5] Also how, after the war, the progressive recommendations of the Indian Industrial Commission were completely "overruled under pressure" of the British vested interests, and how in the 1920s and 1930s policies were adopted which acted as "brake(s) on the pace of industrialisation in India".[6] Examples were given of how even important firms like the Tata Iron and Steel Company were treated shabbily after the war (with the government withdrawing supports such as guaranteed purchase for the Railways), not to mention smaller companies. It was said that "many investors (were) chary in putting capital in new ventures" after the current war broke out "because they had not forgotten the fate of the new industries in which they had put in money after the last war".[7]

At the commencement of the Second World War the Indian capitalists were poised for a major leap forward. They saw the war as an opportunity where India would be able to set up a large number of war industries moving into new areas such as automobiles, aircraft and locomotives manufactures, shipbuilding, manufacture of armaments, engineering goods, machine tools, heavy chemicals and other heavy and key industries. India was not to play only the role of sending "battalions of Indian sepoys to the West".[8]

[4] The reference here was to the Indian textile industry which was said to be producing more than India could consume and still had the capacity to increase production. See G. Somani, Bombay Bullion Exchange, FICCI, *AR*, 1940, pp. 133–34.

[5] FICCI to Government of India, Commerce Department, 2 October 1939, FICCI, *Corresp.*, 1939, p. 136.

[6] Inaugural address by Purshotamdas, Indian Economic and Political Science Conference, Bombay, 31 December 1941, *PT Papers*, fl. 169, pt. I.

[7] J.C. Setalvad, Indian Merchants' Chamber, Bombay, FICCI, *AR*, 1941, p. 40.

[8] V.K. Dhage, Maharashtra Chamber of Commerce, FICCI, *AR*, 1941, pp. 105–9, FICCI

The capitalists, in this context, once again questioned the shibboleth that India did not possess the capital to take this leap forward. On the contrary, they asserted that there was *no shortage* of capital in India, but it was not forthcoming because the government did not allow *conditions* for its profitable investment to be created.[9] The problem was not of non-availability of capital but its "realization". In fact, Mahomed Hussein Premji of the Indian Merchants' Chamber was to lament at the end of the war that India lost the opportunity of building up her industries during the war "*whereas several hundreds of crores worth of Indian capital (had) been lying unutilised* in bank balances and *capital (had) been going a-begging for lack of opportunity*" of investment.[10]

The capitalists basically wanted the government to create the following conditions which would enable investment. To begin with they wanted an assurance that new industries particularly key industries started during the war would be given protection for a reasonable period after the war so that they were not left "high and dry" and allowed to languish as had happened after the First World War.[11] The government assurance that industries "considered essential" to the war which were started during the war would be given such protection after the war as was necessary to enable their continued existence when faced with "unfair" competition was welcomed but said to be not enough.[12] The Federation in a resolution demanded "that *more specific and definite lines of protection and encouragement* should be laid down not only in regard to industries which are essential for war purposes but *also in regard to* such *other industries* as have been established to meet the needs and requirements of...the country particularly owing to the diminution in foreign imports." The FICCI President particularly emphasized the need to encourage particular *capital goods* industries. The resolution also made clear that this "encouragement" could be in the form of protective duties, *subsidies*, government departmental purchase, etc. and it was under no circumstances to be limited by "the criteria...laid down by the Indian Fiscal Commission nearly twenty

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Resolution on Establishment of Defence & Key Industries, *AR*, 1942, pp. 103–4; and G.L. Mehta's speech, *ibid.*, pp. 104ff.

[9] One of these conditions was that the government should give an assurance that war industries would be protected after the war; another was that the government should help India acquire the necessary capital goods and technology; and so on. We shall look at this aspect presently. See Sankalchand G. Shah, The Bombay Yarn Exchange, FICCI, *AR*, 1942, p. 117; and Note on Business Opportunities During the War, Tata Statistical Dept., *H.P. Mody Papers*, fl. 14.

[10] FICCI, *AR*, 1945, p. 174, emphasis mine.

[11] C.S.R. Mudaliar, President FICCI, *AR*, 1940, p. 14.

[12] That this assurance would only partially meet Indian opinion, which wanted a much more positive intervention by the government to "exploit the present favourable opportunity for the development of Indian industries", was anticipated by the India Office, see Minute by Croft on Commerce Department Press Note, 1940, *L/E/9/*1050, IOR, London.

years ago" (*inter alia* of discriminating protection) nor was it to be thwarted by the "cumbersome or dilatory" methods used till now for investigating the claims for protection.[13]

The capitalists envisaged a role for the state during the war which was to be much more direct and active. They wanted the government to "undertake a long range and comprehensive plan" for "a vigorious policy of industrialization" which would fully utilize the opportunities provided by the war and "minimize the dependence of this country on foreign sources". In yet another unanimous resolution FICCI demanded in 1941 that "the Government of India...take immediate steps for the establishment of the Defence Industries in India, either under the *direct control of the State*[14] *or of the nationals of this country*, such as the manufacture of motor vehicles, aircrafts, merchant ships and naval units, guns and tanks, heavy chemicals, etc.".[15] It was, however, made clear that "in the name of War industrialization", the government was under no circumstances to be permitted to allow "new industries under the control of the British interests to come up".[16]

Another major demand made by the capitalists was that the government purchase of war supplies through the Supply Department and other departments be made in a manner that it helped develop Indian industries and not as in the past, favoured non-Indian interests.[17] In this context the capitalists strongly reiterated one of their long-standing demands, that of the *Indianization* of the *civil* and *military* services, especially the Port Trust, the Supplies Department, the Imperial Bank Service and so on. Indians were also to be appointed on key posts such as that of the Trade Commissioner or the Shipping Advisor to enable Indian industries and services to reap the maximum advantage of the war.[18] Particular and repeated emphasis

[13] Resolution on Industrial Policy and President, A.L. Ojha's speech, FICCI, *AR*, 1941, pp. 30–31 and p. 15 respectively.

[14] Later, the capitalists expressed serious inhibitions to the *colonial* state initiating industries under its control. See Chapter 11 in this volume.

[15] See the Resolution on Defence Industries, Speeches of J.C. Setalvad and President A.L. Ojha, FICCI, *AR*, 1941, pp. 48–49, p. 39 and pp. 13–14 respectively, FICCI resolution sent to the 12th Industries Conference, FICCI, *Proc. of EC*, 1940, p. 49. See also Resolution on Establishment of Defence and Key Industries, FICCI, *AR*, 1942, pp. 103–4. The resolution deplored "the absence of any *planned initiative or support* on the part of Govt. of India towards the establishment of any important defence or key industry".

[16] See Draft letter to Government of India by Sir Sri Ram, 21 June 1940 and G.D. Birla to Purshotamdas, 28 June 1940, *PT Papers*, fl. 239 (I). The FICCI Committee warned, "any attempt to let in foreign capital under the guise of war effort to organise the key industries which were deemed essential for defence would be a matter of bitter public criticism". FICCI, *Proc. of EC*, 1940, p. 36.

[17] FICCI Resolution on Purchase of War Supplies, Speeches by M.M. Bhatt, Association of Indian Industries and M. Nauman, Muslim Chamber of Commerce, FICCI, *AR*, 1940, pp. 20–26.

[18] See FICCI Resolutions & Speech of P.S. Sodhbans, Indian Chamber of Commerce, Lahore. *AR*, 1940, pp. 63–67. Also see for demands of Indianization of Port Trust, Supply Department,

was given to the Indianization of the Supplies Department which substantially controlled the war purchases.[19]

However, the most important demand that the capitalists made of the government was that the government take steps to meet the chief *bottleneck* faced by the capitalists at that time—the *shortage of capital goods and technology*.[20] The Federation in a unanimous resolution in 1940 demanded that the government give, "the fullest facilities for importing machinery, spare parts, machine tools and necessary raw materials" as well as "for obtaining technical personnel" from abroad to facilitate the setting up of defence and key industries in India. The resolution also suggested that India's sterling balances could be utilized to "purchase and transfer...necessary plant and machinery from the United Kingdom" or the Lend Lease Act could be utilized to get the same from the USA.[21] (See also Chapters 5 and 10) The capitalists were painfully aware of their dependence on the government for access to capital goods and technology (without which they could not start new industries and their funds would lie idle) and they repeatedly tried to pressurize the government to help in this regard.[22]

However, over the course of the war, the capitalists found the government seriously wanting in any effort (in the directions discussed above or otherwise) to promote Indian industrial development. On the contrary, the feeling was that "the Government of India...bound to the apron strings of...the Imperial Government" saw to it that India remained "the hewer of wood and the drawer of water".[23]

For example, there was a very sharp reaction to the government introducing price control just when, with the commencement of the war, Indian agricultural prices had begun to look up after a prolonged period of depression. It was said that this rise (which had not even reached the

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Imperial Bank Service, etc., FICCI, *AR*, 1939, pp. 21–22; FICCI, *Proc. of EC*, 1939, p. 54. FICCI representation to the government, 10 August 1940, Karachi Indian Merchants' Association and Buyers' and Shippers Chamber Karachi to Department of Communication, Government of India, FICCI to Government of India, Department of Communication, 10 August 1940, and Resolution of Indian Chamber of Commerce of America, N.Y., forwarded by FICCI to Government of India. FICCI, *Proc. of EC*, 1940, pp. 13–14, pp. 71–73, pp. 73–74, p. 53 respectively; FICCI President, A.L. Ojha, FICCI, *AR*, 1941, pp. 24–25.

[19] See, for example, FICCI to Viceroy, 11 November 1940, FICCI Communique, 18 November 1940, FICCI to Member, Supply Department, 18 November 1940, FICCI, *Proc. of EC*, 1940, pp. 36–40. FICCI to Zafrullah Khan, 18 November 1940, FICCI, *Corresp.*, 1940, pp. 201–2, FICCI Press Statement, 3 March 1941, FICCI, *Proc. of EC*, 1940, p. 62.

[20] President, FICCI, *AR*, 1940, pp. 12–13.

[21] Resolution on Establishment of Defence and Key Industries, FICCI, *AR*, 1942, pp. 103–4.

[22] See, for example, G.L. Mehta & Sir Rahimtoola M. Chinoy, FICCI, *AR*, 1942, pp. 111–13 and pp. 115–16 respectively. As Mehta put it, quoting Ginwala, "much as we may wish otherwise the last word on the supply of new equipment and...technical exports rests with the British Govt." *Ibid*.

[23] Ratilal Mulji Gandhi, FICCI, *AR*, 1940, pp. 27–28.

pre-Depression levels)[24] was enabling the agriculturists to recover their losses of the depression period, and also, by increasing the agriculturists' purchasing power, it was going to help Indian industry. "Serious objection" was raised to the government move in this situation to check the price rise and resort to "war purchases" at controlled prices. The government was accused of "bring(ing) about artificial conditions of depression and keeping the purchasing power of the people low and consequently their standard of living, in order to enable the UK to buy essential raw materials needed for war purposes at as cheap rates as possible". It was said that "any check in the rise in prices of commodities which may be usefully sent abroad... amount(ed) to giving away a free gift to the foreigner" to the extent of the difference between the market and the controlled price. But, then, the Government of India was seen to have "framed their economic policy as a supplement to the war economy of the allies, in subordination of the wider economic interests of the country".[25] Making an obvious reference to the wide difference in British policy towards India and the white dominions, FICCI, in its resolution on price control added: "The Government should see that while purchases are being made by the controlling authorities on behalf of the Allies, the Indian cultivator receives the same consideration as his brother cultivator in the Dominions".[26]

As regards the promotion of key and heavy industries in India, G.L. Mehta, in 1942, lamented that in the third year of the war India could not produce an ocean going ship, an automobile or an aircraft. In contrast the White dominions like Canada and Australia were said to be industrializing rapidly. Examples of how the Australian government gave bounties and other help to its war industries were cited and it was pointed out how the Australian economy was revolutionized over the last two years, it being able to deliver a thousand aeroplanes in just one year. Mehta quoted from sources in Britain to show how the industrial interests there (in shipping, automobiles, aircrafts, etc.) looked jealously at any industry coming up in India during the war which would threaten British current or post-war prospects in these areas. The Government of India was accused of succumbing to these interests. Further, the raising of arguments of "dangers of duplication and overlapping" and of diversion of men and material from the "war effort" the moment a proposal of setting up a new factory in these areas came up, and the refusal to declare prospective new industries as part of the "war effort", were alleged to be strategems for protecting

[24] It was pointed out how though the prices of commodities like cotton, wheat, groundnut, linseed, etc., had risen, they had not by 1939–40, even reached the level of 1928–29, R.M. Gandhi, FICCI, *AR*, 1940, p. 30.

[25] See FICCI President, C.S.R. Mudaliar and R.M. Gandhi, FICCI, *AR*, 1940, p. 8 and pp. 27–31 respectively, also see Press Statement by FICCI President, 29 January 1940, *PT Papers*, fl. 235.

[26] FICCI, *AR*, 1940, p. 27.

British interests even at the cost of the "commonwealth defence interests". As G.L. Mehta put it, "this tendency to sacrifice war production in the interests of British industry and exports is the *root cause* of the failure to establish key and heavy industries and to mobilise effectively the potential resources of India so as to make India self-reliant and strong for economic as well as defensive purposes".[27] An example given of the result of such a policy was that India, with a 100-year-old railways covering 40,000 miles, could not manufacture "a single locomotive" at a time when there was a tremendous transport bottleneck faced by the country![28]

Quite understandably, one of the constant refrains adopted by the Indian capitalists in this period was to contrast the transformation of the economies of the White dominions, such as Canada and Australia, which underwent spectacular industrial development during the war, helped by the active cooperation of their governments, with the situation prevailing in India. Repeatedly, protests were made at the persistent efforts of the Walchand group or the Tatas to start industries like shipbuilding, automobile and aircraft manufacture (industries whose growth was encouraged in the Dominions) being thwarted by a series of acts of omission and commission by the Indian government. For example, by just the refusal to call the attempts to develop these industries in India as part of the "war effort" the government denied them access to scarce shipping space and foreign exchange for importing critical machinery, plants, raw materials, etc., nor were these industries to receive guaranteed orders from the government or any other assistance in the form of tariff protection or subsidies. In fact the government thought it fit to actually discourage these efforts on the specious grounds that they were diverting the scarce supply of skilled labour, raw materials, transport facilities, foreign exchange, etc., from the "war effort".[29]

It was this kind of apathy of the government which led the FICCI President to declare half way through the war that "a *National Government* at the Centre" was necessary to take full economic advantage of the war. It was only a "National Government", he said, which could "subordinate powerful (British) interests for the sake of the larger good of the country". A national government was also seen to be necessary to "safeguard (India's) economic interests in the post-war period". The capitalists were now adopting a very aggressive anti-imperialist position. In his press conference, the FICCI President responded to Churchill's charge that "manufacturing and

[27] G.L. Mehta, FICCI, *AR*, 1942, pp. 103–13; G.L. Mehta, President, FICCI, *AR*, 1942, pp. 23–25.

[28] G.L. Mehta, FICCI, *AR*, 1942, pp. 103–13.

[29] For a statement of the views expressed in this paragraph, see for example, FICCI Press Statement, 3 March 1941, *Proc. of EC*, 1940, p. 62. FICCI to Government of India, Supply Dept., 14 January 1943, FICCI, *Corresp.*, 1942, p. 362; G.L. Mehta, FICCI, *AR*, 1942, pp. 112–13; President, FICCI, *AR*, 1943, pp. 23–25. G.L. Mehta, FICCI, *AR*, 1945, p. 115.

financial interests were behind the Congress", by saying that "Indian Commercial organisations did not feel apologetic about the fact that they were an integral part of the national movement and that they were fully in accord with the essentials of the Congress demand for freedom and transfer of power".[30] Again, to the charge that the capitalists were adopting too "political" a stance during the war, Ratilal Mulji Gandhi responded sharply saying that given the subordinate position of India "politics cannot be separated from any important question of agriculture, trade and industry of our country".[31]

In the meantime, the capitalists' tale of woe regarding the negative government policy during the war continued to increase over time and covered several other issues. For example, strong protests were made that, instead of helping meet the critical shortage of capital goods by enabling their imports on a priority basis, the government was allotting scarce shipping space and foreign exchange for the *imports of consumer goods* like textiles, toilet goods, drugs and pharmaceuticals, chemicals, cycles and parts, electric fans, hurricane lamps and liquors. Some of these goods, the capitalists argued, were inessentials and several others could easily be produced in India if the necessary raw material or the intermediate goods (rather than the final product) were allowed to be imported, and if certain other minimum encouragements such as protection were given. "Under the guise of making available larger supplies of consumer goods" and meeting the inflationary situation, the Government of India was "assisting British industries at the cost of nascent Indian industries".[32]

The government was also criticized for using up the entire output (or a large proportion of it) of certain Indian industries for military purposes while depending on imports for civilian consumption requirements. This was leading to the Indian manufacturers not being able to maintain contact with their own markets where foreign producers were now making inroads. This was particularly important keeping in mind the post-war situation where the shift from military to civilian production had to occur—an eventuality for which, unlike India, other countries were already preparing.

[30] Press Conference by G.L. Mehta, FICCI President, 17 September 1942, FICCI, *Corresp.*, 1942, pp. 290–96.

[31] FICCI, *AR*, 1940, p. 23.

[32] FICCI Committee Resolution, 14 December 1943, FICCI, *Corresp.*, pp. 70–73. For the ideas expressed in this and the next para also see, All India Soap Manufacturers' Association to Chief Controller of Imports, 23 September 1943, *ibid.*; G.L. Mehta, FICCI, *AR*, 1944, pp. 18–26; FICCI Resolution on Consumer goods, FICCI, *AR*, 1945, pp. 36–37. B.M. Birla, Sri Ram, B.C. Ghose (Bengal National Chamber of Commerce), P. Da Costa (Engineering Association of India, Calcutta), S.K. Bhave (Maharashtra Karkhandar Sangh, Poona), FICCI, *AR*, 1945, pp. 36–37, pp. 40ff., 44, 46 and 49 respectively.

III. United Kingdom Commercial Corporation

The capitalists also accused[33] the government of following a policy which was damaging to the Indian export trade. Strong objections were raised to the United Kingdom Commercial Corporation (UKCC), a British government-owned company whose capital was held by the British treasury, being allowed to extend its operations to India. The UKCC, with the objective of promoting British trade and exports in various foreign markets, had established itself in about 24 countries, and was said to be gravely intruding into the "normal channels of trade" that were maintained by private Indian traders with many of these countries. The Corporation was said to have a virtual monopoly position as it was favoured with priority shipping space, export permits and numerous other advantages which it received because of the official connection "with the Supply Department and the Eastern Group Supply Council". (The Eastern Group Council was responsible for coordinating the war requirements of the Commonwealth south and east of Suez.) The Indian private traders were thus ousted from their normal channels of trade and were losing, or were prevented from developing, "contacts with commercial interests and markets outside India" which would have been of great benefit to them after the war.

Further, the Supply Department which made its purchase of Indian goods at *"controlled rates"* was said to pass them on to the UKCC at the same rates—an advantage denied to the private Indian trader. Moreover, the UKCC resold these goods to other countries at much higher prices, denying the Indian manufacturers, traders or the exchequer advantage of the profits on this count. The capitalists therefore demanded that, *if it was necessary* to have such a non-private agency, it should be an Indian agency and not one directly responsible to the British government. It was pointed out that, after all, it was not found necessary to impose "any such...organisation in any of the Dominions like South Africa, Australia or Canada".

The capitalists, and particularly the traders amongst them, who were particularly badly hit, were worried about the UKCC continuing to

[33] The discussion on the UKCC in this and the next two paragraphs is based on the following sources. G.L. Mehta to Commerce Member and Supply Member, 23 September 1941 and 14 November 1941; Muslim Chamber of Commerce, Calcutta to Commerce Dept., Government of India, 16 September 1941, *WH Papers*, fl. 611(2); *Hindustan Standard*, 30 June and 1 July 1942 for Jawaharlal Nehru making the same critique as the capitalists, *WH Papers*, fl. 82(2); FICCI to Government of India, Supply Dept., 8 June 1942 and 25 September 1942, FICCI, *Corresp.*, 1942, pp. 28–38; Presidential Speech by G.L. Mehta, FICCI resolution on United Kingdom Commercial Corporation and Sir Abdul Halim Ghuznavi, FICCI, *AR*, 1943, pp. 21–22 and pp. 165–71. Note on UKCC prepared by M. Bhatt for FICCI, 17 April 1944, *PT Papers*, fl. 267; Minutes of discussions between FICCI leaders and the Commerce Member, 12 September 1944, *PT Papers*, fl. 336; Muthia Chettiar, President, FICCI, *AR*, 1944, pp. 15–16; and FICCI to Government of India, Commerce Dept., 10 September 1945, FICCI, *Corresp.*, 1945, pp. 24–26.

operate in India after the war seriously affecting India's foreign trade. They did not want, in the words of Sir Abdul Halim Ghuznavi, this "second edition of the East India Company" to stay on after the war, and put sustained pressure to secure an assurance that its operations would be discontinued after the war.

IV. Capital Issues Control

It was not only control over imports and exports which the capitalists accused the government of using in a manner unsuited to India. They made detailed criticism of other controls introduced by the government during the war. The Capital Issues Control was one such war control which the capitalists criticized strongly, and it is worth discussing in some detail here.

The capitalists said that Indian capital had been accused of being "shy", but now that it was coming out freely, restrictions were being put on its investment.[34] Particular objection was raised to the fact that this control discriminated against Indian investors in comparison with foreign companies. While Indian investors had restrictions put on them, "foreign companies registered abroad (were) not subject to these regulations and (were) free to expand their existing business or undertake a new one in this country".[35]

The capitalists demanded liberalization of the regulations such as the raising of the exemption limit to Rs 1 million and also argued that such controls could not be left "in the hands of the officials of the Government *as at present constituted*". It was said that unlike in India, in other countries, "where industries (were) subject to controls" they were also "guaranteed corresponding state aid". The capitalists therefore demanded that if there were to be controls like the Capital Issues Control then an "effective" non-official advisory body consisting of "Indian industrialists and businessmen" should be associated with the functioning of such controls.[36]

[34] G.L. Mehta, FICCI, *AR*, 1944, p. 116.

[35] FICCI to Government of India, Finance Dept., 11 June 1943, FICCI, *Corresp.*, 1943, pp. 149–50. The Federation also complained that the new regulations were putting restrictions on the British Indian investors investing in the Indian states. They demanded freedom to participate in issues of capital made by companies registered in Indian States. *Ibid.* In fact this demand was quite understandable because given the obstructionist policy of the government to industrial efforts during the war several Indian entrepreneurs tried to start enterprises in the Princely States (such as Walchand's attempt to start shipbuilding and automobile manufacture in Indian states). For criticisms of the control on grounds that it favoured foreign capital, see also, FICCI to GOI, Finance Dept., 23 July 1945, FICCI, *Corresp.*, 1945, pp. 71–73; FICCI to GOI, Fin. Dept., 11 July 1944, FICCI, *Corresp.*, 1944, pp. 66–69; S.K. Bhave, Maharashtra Karkhandar Sangh, Poona, FICCI, *AR*, 1945, p. 49.

[36] See FICCI to Government of India, Finance Dept., 11 July 1944, FICCI, *Corresp.*, pp. 66–69, Resolution on Effects of Controls on Trade and Industrial Development, and G.L. Mehta in

One provision of the Capital Issues Control, which was introduced in mid-1944, that "a new floatation must invest its newly raised capital in Defence Loans until it can be made use of to further the purposes of the scheme in the post-war period", came under strong criticism from the capitalists. G.D. Birla argued that this provision, though it was supposedly aimed at controlling inflation, would "act only as a deterrent on new production even after the war". The government, he pointed out, right from the beginning of the war, had refused to follow a strategy of promoting larger production to neutralize inflation.[37]

G.D. Birla argued that because the government discouraged any industry to come up with *immediate* plans of production and allowed capital to be raised only if it was for "a long range project" and if the capital was "invested in Government loans", the "whole Capital Issues Control" functioned "as if it were for the purpose of collecting funds for Government and for discouraging immediate expansion". The investor was also left with complete "uncertainty" even regarding the post-war situation as the government stipulated that these funds would be released in accordance with whatever rules, regulations and controls that were made applicable in the future. Moreover, if after the usual dilatory process an application for floatation was accepted even this floatation would have to be completely uncertain as "whether the business would ever be started would depend on the future planning of the Government which (was) still in the embryo".[38]

Birla also pointed out that an applicant for Capital Issue had to first produce evidence that the Controller of Imports had accepted the import of capital goods necessary to start the company. The Controller of Imports however would "rarely" grant permission if the proposal was to purchase capital goods "from outside the Sterling area". This "may mean that no company is allowed to be floated unless it declares beforehand that it is going to buy its equipment only in England and nowhere else.... If that be the position then the capital issue department virtually becomes an agent of the British manufacturer of capital goods".[39]

V. Excess Profit Tax

One of the major issues during the war, which led to much agitation among the Indian capitalists, was the imposition of the Excess Profit Tax

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FICCI, *AR*, 1945, pp. 165–66 and p. 120 respectively; FICCI to Government of India, Finance Dept., 23 July 1945, FICCI, *Corresp.*, pp. 71–73.

[37] G.D. Birla, *Amrita Bazar Patrika*, 7 May 1944.

[38] G.D. Birla, FICCI, *AR*, 1946, p. 18. Also see Badridas Goenka, FICCI, *AR*, 1945, p. 168; Note by D.P. Khaitan, 1 January 1945 and L.N. Birla, 6 January 1945 on Capital Issues Control, *PT Papers*, fl. 336.

[39] FICCI, *AR*, 1946, p. 19.

(EPT). Soon after the commencement of the war the Government of India published (on 27 January 1940) in the Gazette of India a bill to impose a tax on excess profits for the purpose of raising "larger finances for the prosecution of the war". Immediately the capitalists lodged loud protests. They said that the Excess Profit Tax would make nonsense of the hope that the war would be a "stimulus for a big forward drive towards industrial expansion". It was pointed out that in the UK "the indices of profits in important...industries for the years 1936, 1937 and 1938 show(ed) virtual boom conditions", partially because of the massive government orders for goods in preparation for the War. The Indian industries on the other hand had hardly "emerg(ed) out of the Depression" till virtually the beginning of the war, nor had they received any substantial war orders "even after (the) declaration of war". In such a situation, "the Tax would strike at the very root of industrial expansion", as it would "check the flow of new capital badly needed for financing present and new industries". Also, "indigenous industry would not be in a position to build up enough reserves" to withstand "the inevitable post-war slump".[40]

The capitalists organized countrywide protest meetings against the EPT Bill to mobilize public opinion and put pressure on the government. The Indian Merchants Chamber along with 50 other business associations organized a protest meeting in Bombay on 9 February 1940 which passed resolutions criticizing the Bill saying that the proposed Excess Profit Tax of 50 per cent[41] was "too high for this country" and would be a "great blow to existing and new industries".[42] Similar meetings were organized in Calcutta,[43] Delhi,[44] Madras and many other parts of Madras Presidency, such as Coimbatore, Tinnevelly, Trichinopoly, Madura, Cochin, and Calicut.[45]

[40] C.S.R. Mudaliar, FICCI President, Press Statement, 29 January 1940, *PT Papers*, fl. 235 and FICCI, *Corresp.*, 1934, pp. 283ff., FICCI, *Proc. of EC*, 1934, pp. 54–63; A.L. Ojha, Vice-President, FICCI to Government of India, Finance Dept., 5 February 1940, FICCI, *Corresp.*, 1939, p. 286; Unanimous Resolution of the FICCI on Excess Profit Tax Bill, 30–31 March 1940, FICCI, *AR*, 1940, pp. 19–20.

[41] The provisions of the bill were that for business making profits which were more than Rs 20,000 per year, a tax of 50 per cent would be levied on business profits in excess of "standard profits". For details, see "Excess Profit Bill in Outline", FICCI, 31 January 1940, *PT Papers*, fl. 235.

[42] For the list of the 50 organizations and the Resolutions passed in the meeting, see *PT Papers*, fl. 235.

[43] See B.M. Birla to Purshotamdas, 23 February 1940 and G.L. Mehta to Purshotamdas, 24 February 1940, *PT Papers*, fl. 235.

[44] Sri Ram to Purshotamdas, 23 February 1940, *PT Papers*, fl. 235, Sri Ram offered to do his best to organize such a meeting in Delhi despite the fact that in his opinion there was no strong feeling on the subject in Delhi as there were "very few people", "likely to be affected" by the Bill.

[45] See C.M. Kothari to Purshotamdas, 23 February 1940, *PT Papers*, fl. 235.

A public meeting of industrialists, businessmen and citizens of Cawnpore was held under the auspices of the City Congress Committee on 4 March 1940. It strongly condemned the Excess Profit Bill. The Bill was called "anti-national", against India's economic interest and aimed at collecting money for an "imperialist war" in which India was forced to "participate against her will". The meeting also resolved that such taxes were justified only if they were levied with "full consent of the people's... elected representatives" and if the amount was used for "promoting schemes of National Regeneration and Social reconstruction". While India's future National Governments could "take recourse to taxation of this nature" the meeting condemned the present move "sponsored by (an) alien Government".[46] The resolution passed by this meeting evidently went somewhat beyond what the capitalists might have desired.[47] Nor did the Congress fully go along with the capitalists on this question as we shall see later.

Basically, the capitalists hoped to put sufficient pressure on the Legislature and the government to force changes in the EPT Bill which would somewhat reduce the burden on them, e.g., by getting the rate chargeable reduced from 50 to 35 per cent.[48] Systematic lobbying had to be done by them in a context where the Congress absence from the Central Assembly made it much easier for the government to push through the Bill both at the Select Committee stage and later. The support by the Muslim League of the government position made things even more difficult.[49] The capitalists, therefore, in their campaign against the Bill made particular efforts to organize business opinion among the Muslims to put pressure on Jinnah and the Muslim League.[50] They even made attempts to pursuade the Congress, whose members had resigned the legislatures, to allow its Central Assembly members to attend the session to offer opposition to the EPT Bill.[51]

The Congress, however, refused to change its decision to boycott the assemblies. Vallabhbhai Patel felt that any such change would only "expose (the Congress) to ridicule without getting any counter-balancing advantages". He felt that despite Congress opposition the government

[46] See Padampat Singhania to Purshotamdas, 5 March 1940, *PT Papers*, fl. 235.

[47] As Padampat Singhania, the doyen of Indian business in Kanpur, put it, "the resolution was stretched to suit the Congress platform". The significance of what Singhania called the "first official Congress resolution on the Excess Profit Tax" was not lost on the capitalists. It presumably made it more than worthwhile for them to "stretch" their position. *Ibid.*

[48] FICCI, *Proc. of EC*, 1940, pp. 7–8.

[49] See Abdul Halim Ghuznavi, MLA to Purshotamdas, 29 February 1940, and D. Mulherkar, Secretary, FICCI to Purshotamdas, 16 February 1940, *PT Papers*, fl. 235.

[50] See Purshotamdas's circular note in Purshotamdas to B.M. Birla, 21 February 1940; C.M. Kothari to Purshotamdas, 23 February 1940; and G.L. Mehta to Purshotamdas, 24 February 1940; *PT Papers*, fl. 235.

[51] G.L. Mehta to Purshotamdas, 24 February 1940, *PT Papers*, fl. 235; Vallabhbhai Patel to Rajendra Prasad. 6 February 1940, *Rajendra Prasad Papers*, Reel 19, NMML, New Delhi.

would push through the Bill by certification. Patel's refusal to countenance the capitalists' suggestion was also influenced by his belief that, in any case, the capitalists would not have been willing to go as far as the Congress in opposing the Bill.[52] Jawaharlal Nehru, Bhulabhai Desai and Rajendra Prasad supported Patel's stand.[53]

The Federation formed an "EPT Bill Sub-Committee" comprising Lala Sri Ram, B.M. Birla and Abdul Halim Ghuznavi (MLA) to help coordinate the campaign and lobby with the members of the Select Committee, various parties and groups in the Assembly as well as with the government. The work of this sub-committee and various chambers of commerce all over the country, the services rendered by people like Cowasji Jehangir and H.P. Mody in the Select Committee as well as the support from the European Group led to some clauses of the Bill undergoing "material modifications to the advantage of the commercial interests". For example, the government agreed to give relief to "business of pioneer nature" started during the war and also to the Indian shipping industry.[54] No concession however was made in the rates of the EPT.

In fact, much to the chagrin of the capitalists, the government, in their 1941–42 budget proposals, raised the Excess Profit Tax from 50 to 66 $\frac{2}{3}$ per cent and levied a surcharge on income tax and super tax. This the capitalists said effectively took away nearly 80 per cent of the additional profits.[55] Further, the government requirement (in 1943) of a compulsory deposit of 20 per cent of EPT in addition to EPT levy of 66 $\frac{2}{3}$ per cent combined with income tax and super tax, led to 93 $\frac{1}{3}$ per cent of excess profits being taken away, leaving only 6 $\frac{2}{3}$ per cent in the hands of the assessee to dispose of as he liked.[56] Some claimed that the government taxation policy in effect not only took away 100 per cent of the excess profits but made inroads into standard profits.[57] This, it was reiterated, seriously affected the ability of Indian business to take advantage of the war situation to finance the expansion of existing industries or the starting of new industries. Also, it left hardly any *reserve* (despite the proposed refund of compulsory deposits) for the post-war situation where there would be a heavy need for funds to

[52] *Ibid*. Patel wrote to Rajendra Prasad "The capitalists who would generally be affected by this Bill would not support us to the extent to which we would ask our party to go in this matter. The Congress Party can oppose the Bill altogether but it seems that the capitalists are anxious to have a settlement and secure a reduction of the percentage which they are sure to get." *Ibid*.

[53] Rajendra Prasad to Patel, 12 February 1940; Patel to Rajendra Prasad, 6 February 1940, *Rajendra Prasad Papers*, Reel 19.

[54] Report submitted to the Committee of the Federation by the EPT Bill Sub-Committee, 6 June 1940, FICCI, *Corresp*., 1940, pp. 36–41; and FICCI, *Proc. of EC*, 1940, pp. 7–8.

[55] FICCI Press Communique, 3 March 1941, FICCI, *Corresp*., 1940, pp. 347–52.

[56] EPT Ordinance, 1943, FICCI, *Corresp*., 1943.

[57] M.A. Master (Indian Merchants' Chamber, Bombay), J.J. Kapadia (Native Share and Stock Brokers' Association, Bombay), FICCI, *AR*, 1944, pp. 137–41 and pp. 142–43 respectively.

replace the plant and equipment which were overworked during the war, as well as for purchase of new equipment as the rapid development of technology during the war would render the existing equipment thoroughly obsolete. Moreover, the purchase would have to be made at a time when there would be scarcity of capital goods and steep rise in their prices.[58] The capitalists made similar complaints repeatedly right up to the end of the war.[59] After the war they pressed for the immediate removal of the EPT.[60] (The tax was eventually removed in 1946.)

One very interesting aspect of the capitalists' response to the question of Excess Profit Tax was the position taken by G.D. Birla, undoubtedly the most brilliant, farsighted and politically mature leader of the capitalist class. Birla stayed out of the entire agitation on this question. So much so that Purshotamdas wrote to him asking for an explanation for his uncharacteristic behaviour: "I am a little at a loss to understand why you have not so far taken any leading part in agitation against the E.P. Bill".[61]

Birla's reasoning on this question was one which aimed at the maintenance of the bourgeois ideological hegemony or influence over civil society in general by making sure that the class did not behave in a manner where it could be accused of being obviously selfish and self-seeking. Birla also attempted to maintain the long-term economic interest of the class even if it meant making what could appear as sacrifices in the short run.

Birla's basic position, which he argued at a meeting of the Committee of FICCI on 10 August 1941 called to discuss the issue of increased taxation, was the following.[62] First, that the Excess Profit Tax was not paid by the capitalist but "by the consumer and...the man in the street" even though the "man in the street" might feel that "it is the capitalist who is taxed". He argued that in a situation where demand was greater than supply, as was generally the case during war, the manufacturers were able to treat the tax "as an item of cost of production and pass it on to the consumer" by raising the selling price. Birla cited the results of a British government investigation on the effects of Excess Profit Tax in England during the First World

[58] *Ibid.*; FICCI Resolution on Industrial Development and Taxation, and Badridas Goenka in FICCI, *AR*, 1944, pp. 131–32; FICCI to Government of India, Finance Dept., 3 November 1943, FICCI, *Corresp.*, pp. 155–60.

[59] FICCI to Government of India, Finance Dept., 8 March 1945 and 9 April 1945, FICCI, *Corresp.*, 1945, pp. 48–53; FICCI Resolution, D.P. Khaitan, Ramnath Podar, FICCI, *AR*, 1943, pp. 106–7, 108ff. and 110 respectively.

[60] FICCI to Government of India, Finance Dept., 27 October and 29 October 1945, FICCI, *Corresp.*, 1945, pp. 75–77.

[61] Purshotamdas to G.D. Birla, 21 February 1940, *PT Papers*, fl. 235.

[62] See Draft Prepared by G.D. Birla of viewpoints that emerged in the meeting of 10 August 1941, *PT Papers*, fl. 175(2). Also see G.D. Birla to Purshotamdas, 21 August 1941; G.D. Birla to Padampat Singhania, 21 August 1941 and 29 August 1941, G.D. Birla to Lala Sri Ram, 11 September 1941, *PT Papers*, fl. 175(2), Statement by Birla cited below are mainly from his draft of the 10 August meeting, except when otherwise indicated, emphasis mine.

War, which confirmed his argument that this tax in effect acted as "an indirect tax on commodities" or an "excise duty on commodities" which was passed on to the consumer.[63] He added that this was a politically convenient method of taxation as the masses remained under the "illusion" that the tax was actually collected from "a few manufacturers".

Second, he argued that "even though these taxes (were) collected from the mercantile class, the business community (was) acting only as a collecting agency" or as a "middleman". "The original donors" of this heavy taxation were "the masses and the ultimate beneficiary the Government, and in between the two the *mercantile class retain(ed) a portion of the payment made by the masses*". "The masses therefore" were "paying not only for the Government but also *for the profit of the industrialist*."

Given the above propositions, Birla argued that if the commercial community was to lodge an "effective protest on behalf of the poor" against the "heavy taxation" and if the "commercial community was to act sincerely according to its profession" then it had to be "prepared to *sacrifice its own portion of the collection*". The business community could not "effectively protest against heavy taxation so long as the margin of profits in industries (was) at an extraordinarily high level". He explained to Purshotamdas: "it would be hypocrisy of the extreme type if we talked and pleaded for something in the interest of the agriculturist while we (were) not prepared to restrict our own profits".[64] Similarly, he told Singhania: "if we really wish the masses well and insist on reduction of taxation in their interest we too must make (a) sacrifice".[65]

Birla further argued that a certain restriction of profits was in the long-term interests of the class. He said that "high taxation coupled with high margin of profit" would increase the cost of living, retard consumption, *force manufacturers to curtail production* and lead to unemployment. Such a scenario of "*high price*, smaller real income, less consumption and fall in standard of living", warned Birla, would "cause serious discontent and unrest among the masses". Therefore, both "economically, as well as politically, such a state of affairs (was) most dangerous" and was to be avoided even if it meant the "mercantile community (had) to face restricted profits".

Birla, in this connection, also disabused his peers of the prevalent notion that businessmen (acting as the "tax collector") would prosper, during the war, "along with the Exchequer, at the expense of the tax payer"—the masses. He said this might be true in the initial stages but if the war

[63] He also argued, in a wider context: "The simple fact is that all taxes, direct or indirect, are ultimately paid by the masses. But, of course, one can always dispute even this simple fact. And a book will have to be written to prove this." Birla to Sri Ram, 11 September 1941, *PT Papers*, fl. 175(2).

[64] Birla to Purshotamdas, 21 August 1941, *PT Papers*, fl. 175(2).

[65] Birla to Singhania, 21 August 1941, *PT Papers*, fl. 175(2).

continued for long, as he thought it would, "the taxable capacity of the masses (would) be entirely exhausted and then the reservoir of the richer class (would) be dried up to meet the war expenses". He explained further to Padampat Singhania that the government "tax the masses first through us" and then "next they (would) empty the big reservoirs of the rich to the last dreg". He warned against a "false sense of prosperity" based on the belief "that only the masses (would) suffer". He added: "ultimately, our interests are identical with those of the masses".[66]

Given the above overall understanding, Birla recommended that the capitalists, rather than just agitate for a lowering of taxes, "should take a wider view" and strongly press the following demands on the government. The government must (*a*) "effect drastic economy" in war expenditure; (*b*) "in future mainly rely, for meeting any extra war expenditure, on the resources of England"; (*c*) "*keep under control the price of manufactured goods*"; and (*d*) "not allow the cost of living to outrun the income of the masses". He argued that though these demands "involve(d)... a temporary sacrifice", they would "in the long run (be) a gain for the mercantile community".

Though on the basis of Birla's arguments, the Committee of FICCI, in their meeting of 10 August 1941, decided to inter alia "create public opinion against the rise in the prices of manufactured goods",[67] very soon, presumably once the implications of Birla's position registered fully, demands that the Committee decision be reconsidered emerged, spearheaded by Padampat Singhania. Singhania in a long note to the President, FICCI, dated 13 August 1941, basically argued the standard position one would expect from a manufacturer that "a general *rise in the prices of manufactured goods*" would be in "the best interests of the country"[68] and any propaganda against the rise in prices would not only harm industrialists and the country but benefit the British government and the Government of India.[69]

[66] Birla to Singhania, 29 August 1941, *PT Papers*, fl. 175(2).

[67] As reported by Padampat Singhania, see Singhania to FICCI President, 13 August 1941, *PT Papers*, fl. 175(2).

[68] The Secretary of State, L.S. Amery commented on the position of the "Indian capitalists" who spurred by their "profit seeking motives" felt that "their own immediate interests are well served by an inflationary situation, which, therefore, they do all they can to encourage". He added that this "tendency to look first and last to the *narrowest interest* of Indian enterprise" made the capitalists unfit for being associated with "controls" introduced during the war. Secret Note on Economic situation in India, *War Staff Papers*, *L/WS/1/581*, IOR, London, emphasis mine. It was precisely charges like this that G.D. Birla had been trying to avoid.

[69] Singhania to FICCI President, 13 August 1941, *PT Papers*, fl. 175(2). Singhania argued that in all industries where the output was mainly exported (such as jute) or was mainly bought by the government (such as Iron & Steel) an increase in price would not affect the masses adversely. He felt Birla's argument applied only to the textile industry as 70 per cent of its output was bought by the masses. But here too he claimed rise in prices partially helped the agriculturists and labourers through higher prices for raw cotton and higher wages. *Ibid*.

Birla had been warned by Purshotamdas that very few would agree with his position.[70] Birla still tried to convince his colleagues not to take "a purely parochial...businessman's point of view" but to adopt a "wider view" of the question. He, however, expected "99 per cent" of them to "oppose" him because "just now" the interests of the businessmen and government were identical (both benefitting from the tax raised from the masses) and saying anything to the government would mean that the businessmen "would have to restrict (their) own cupidity". He, therefore, had resigned himself to being totally outnumbered; he still argued the case knowing "that it is all academical".[71] He himself, however, lay low on the agitation against the Excess Profit Tax.

VI. Eastern Group Conference, American Technical Mission, Lease Lend Agreement

Returning to the war effort and India's role in it, the Indian capitalists, while keen to utilize the opportunity for industrial development, were at the same time quite wary of international cooperation through bodies over which Indian influence was either absent or marginal.

When the Eastern Group Conference (a fact finding mission with the object of pooling the resources of countries constituting the British Commonwealth to the east and south of Suez for the prosecution of the war) met in India in November 1940, the Indian capitalists issued an immediate alarm. First, they warned that the Government of India should not "on the plea of coordination of resources or attainment of Group self-sufficiency" commit itself to any decision of the Eastern Group Council which would "in any way preclude India from establishing and developing her own key and defence industries..."[72] The statement issued by Sir Walter Massey Greere, leader of the Australian delegation to the Eastern Group Conference, on his arrival in Calcutta that "it is manifestly unwise in time of war for one part of the Empire to start some war industry *denovo* if another part" could supply the needs easily, confirmed the capitalists' fears.[73]

Others who raised objections to Birla's position were Lala Sri Ram and the FICCI President Chunilal B. Mehta but they had even less substantive points to make than Singhania, see observations by Chunilal B. Mehta on Birla's Draft and Note circulated by Lala Sri Ram, *PT Papers*, fl. 175(2).

[70] See G.D. Birla to Purshotamdas, 21 August 1941, *PT Papers*, fl. 175(2).

[71] See G.D. Birla to Singhania, 21 August 1941, *PT Papers*, fl. 175(2).

[72] FICCI to Government of India, Supply & Commerce Dept., 12 November 1940, FICCI, *Corresp.*, 1940, pp. 174–76; FICCI, *Proc. of EC*, 1940, pp. 32–35. FICCI, Resolution on Coordination of War Supplies in Eastern Group Countries, FICCI, *AR*, 1941, pp. 87–88.

[73] FICCI to Government of India, Supply & Commerce Dept., 12 November 1940, FICCI, *Corresp.*, 1940, pp. 174–76.

G.L. Mehta insisted that in the name of "avoiding duplication" or "overlapping" India could not be asked not to develop her own industries. It could not be said, for example, that "because Australia and Hongkong can build ships" Indians could not do so. While the Australians were aiming at becoming the "arsenal of the South Pacific", Mehta added, "we are not prepared to become the granary of the British commonwealth".[74]

Second, it was said that the Government of India should not accept any "additional financial responsibilities or burdens" for the sake of Imperial defence; and it was hoped that in this matter the government would not "agree to serve as an instrument of the will of His Majesty's Government as its subordinate branch".[75]

Third, the capitalists warned against the "real danger of intrusion of foreign capital and non-Indian enterprise for the utilisation and exploitation of India's resources" (for the war effort) as a fallout of this conference. The government was urged to resist any attempt "at what might tend to become a common or joint attempt at the economic domination or exploitation of India by the British nationals of the Dominions and Colonies". It was strongly emphasized that "in building up India's vital industries and utilising India's resources" for the war, "the control and management of such enterprise (had to) be Indian".[76]

G.L. Mehta made particular reference to the fact that Indian non-official opinion was associated with the conference only in "the last minute" and in a hurried fashion. Though important commercial representatives were included among the non-officials, their status was highly unsatisfactory—"they were associated during the fact finding stage but when the stage of fiction writing began they were asked to go home".[77]

Similar fears as those regarding the Eastern Group Council were expressed with regard to the proposed American Technical Mission. The Federation in a communication to the Government of India expressed lack of enthusiasm regarding this Mission, given the track record of the Eastern Group Council and the Roger Mission (a British supply department mission which visited India in September 1940) which were "biased against any idea of Indian self-sufficiency in vital matters".[78]

The capitalist feared that the American Technical Mission (which was "to examine and report on the possibility of American assistance in developing as fully and as rapidly as possible the industrial resources of India")

[74] FICCI, *AR*, 1941, pp. 90–91.

[75] FICCI to Government of India, Commerce & Supply Dept., 12 November 1940, FICCI, *Corresp.*, 1940, pp. 74–76.

[76] *Ibid.*; A.L. Ojha, President, FICCI, *AR*, 1941, pp. 13–14; and P.S. Sodhbans, Indian Chamber of Commerce, Lahore, FICCI, *AR*, 1941, p. 43.

[77] FICCI, *AR*, 1941, pp. 88–89.

[78] FICCI to Government of India, Commerce Dept., 27 March 1942, FICCI, *Corresp.*, 1942, pp. 204–6.

might result in measures which would "result in American economic domination over India". The capitalists warned against the Americans, taking advantage of the Mission, setting up war enterprises in India, thus creating vested interests "which may prove even *more dangerous* than the (British) vested interests of today", and which would "militate against (India's) present or future industrial development". It was said that "if as a result of the Lease and Lend Act and with the aid of such a technical mission American interests (were) able to set up plants and exploit the natural resources of the country it would be a great impediment to national economic (and political) development". Therefore, only if the Mission were to "facilitate the strengthening of Industrial War effort *under Indian management and control* by giving the necessary technical help and supplying essential machinery", was its assistance to be welcomed.[79]

Second, the capitalists expressed grave apprehension "that attempts (would) be made to obtain trade and tariff concessions or special privileges for American industry in the post-war period as a price for American financial and technical help during the war". They therefore declared that India was "under no circumstances (to) surrender (her) right to frame and execute her fiscal policy according to her own requirements either now or in the post-war years for securing American collaboration" or as a result of "any commitment of the British Government to the United States".[80]

This fear of post-war Indian fiscal autonomy being eroded by commitments made during the war—if not directly by India then by Britain on India's behalf—got a firm basis in the context of the Lease Lend Agreement between the UK and the USA and the Anglo-American trade and loan agreements. These agreements functioned under the provisions of the Atlantic Charter of August 1941 (signed by the UK and USA), clause 4 and 5 of which inter alia talked of the objective of "*equal access*" to trade and raw materials of all countries after the war. The "Mutual Aid Agreement of 1942" between the UK and the USA, which laid down "the principles which (were) to govern the repayment of Lease and Lend Supplies" from the USA, went a step further. Clause 7 of this agreement was said to provide that, in return for the assistance rendered by the USA, an effort would be made (in pursuance of the "economic objectives" of the joint declaration of August 1941 or the Atlantic Charter) to promote world trade free of

[79] *Ibid.*; FICCI to Government of India, Supply Dept., 16 October 1942, FICCI, *Corresp.*, 1942, pp. 240–42. Sir Rahimtoola M. Chinoy, FICCI, *AR*, 1942, p. 116; and Sir Sri Ram, FICCI, *AR*, 1942, pp. 65–66, emphasis mine. Sri Ram added that if any enterprises were set up by the Americans then a definite undertaking was to be secured that "these would be handed over to either the Government of India or Indian industrialists...if not now then certainly after the war". *Ibid.*, see also, G.L. Mehta and G.D. Birla, FICCI, *AR*, 1942, pp. 66–67 and 68 respectively.

[80] FICCI to Government of India, Commerce Dept., 27 March 1942, FICCI, *Corresp.*, 1942, pp. 204–6.

"discriminatory treatment in international commerce" and to encourage "reduction of tariffs and other trade barriers" after the war. The capitalists saw in all this (with considerable justification as we shall see presently) the threat of the erosion of the right of the underdeveloped countries to adopt tariff and other measures for protecting their industries, preserving their raw materials and promoting general economic development in the post-war period.[81]

While expressing these fears and demanding "vigilance" on these counts, the Indian capitalists had simultaneously nurtured the faint hope of being able to use the Eastern Group Council, the American Technical Mission, the Lease Lend programme, etc., to acquire capital goods and technology and to start war industries. Their hopes were further aroused by statements made by members of the Eastern Group Council and the American Mission to assuage the capitalists' fears and to assure them that these organizations would not be used for allowing industries to come up under foreign control or for demanding trade or tariff concessions after the war.[82]

However, very soon these hopes came to nought. Already in 1943 the FICCI President, G.L. Mehta, was to lament: "Although it has been recognised that owing to India's strategic position and vast resources she should not only be self-sufficient but operate as an arsenal of the Eastern countries neither the Eastern Group Conference nor the American Technical Mission resulted in the formulation of any comprehensive plan of development."[83] The Indian member of the Eastern Group Council was said to have made it clear that it was "no business of that Council to see that industries were started in India for supplying the needs of the various

[81] See FICCI Resolution on Lease Land Supplies and A.D. Shroff in FICCI, *AR*, 1943, pp. 118–19 and pp. 119–26 respectively; and FICCI to Government of India, Commerce Department, 1 June 1942 and 29 June 1942, FICCI, *Corresp.*, 1942, pp. 42–47. For the text of the Anglo-American Agreement or the Mutual Aid Agreement of 23 February 1942, including clause 7, see Government of India, Commerce Dept. to FICCI, 2 July 1942, FICCI, *Corresp.*, 1942, pp. 47–50.

[82] See Press Communique by FICCI President, G.L. Mehta on the American Technical Mission, 26 April 1942 and 5 May 1942, *PT Papers*, fl. 281 and *WH Papers*, fl. 613(1) respectively. G.D. Birla had found Sir Bertram Evans, an Australian member of the Eastern Group Conference not typically "colonial". Evans had assured Birla that "Australia would be prepared to help further industrialisation of India with technical help and also money without at the same time having any controlling interests". Birla found this "too good to be believed" but still thought it was worthwhile to pursue the matter. See G.D. Birla to Purshotamdas, 18 June and 24 June 1941, *PT Papers*, fl. 281. Birla was enthusiastic to meet and explore possibilities with the American Technical Mission and tried to persuade Purshotamdas to do the same. Purshotamdas however felt that "until the *question of Constitution is settled*, these trade talks with foreign governments cannot lead to much". See Purshotamdas to G.D. Birla, 18 April and 20 April 1942 and Birla to Purshotamdas, 20 April and 22 April 1942, *PT Papers*, fl. 281. For how the Lease Lend Act was seen as a possible source of capital goods, machinery, etc., see FICCI Resolution and G.L. Mehta, FICCI, *AR*, 1942, pp. 103–4 and pp. 112–13 respectively.

[83] FICCI, *AR*, 1943, pp. 23–25.

theatres of war in the East."[84] The British members of the Council, on the other hand, were said to be "obsessed by considerations of post-war effects" on British industry "of industrial development in this country" while "framing their proposals" regarding the tapping of India's potentialities during the war.[85] The American Mission was accused of taking a very "narrow" and "short-range view" of India's potential for war production, basically recommending "repairing" of ships and aircrafts rather than their manufacture in India while "depending for long-range assistance on the American programme of war production". The contrast with the White Dominions of course remained, as by the same logic "Australia (was) not...precluded from developing shipbuilding, (aircraft) and automobile industries".[86]

The lukewarm, if not outright negative, attitude of the Government of India was evident from its warning to the FICCI: "The idea that a period of war can be used for a comprehensive industrial programme is likely to lead to disappointment; conditions for the execution of such a programme are at the present time most unfavourable".[87] The British War Cabinet, too, was advised in 1943 that due to the shortage of shipping Britain should change the policy of producing in India what was necessary for the Eastern Group Countries. "Demands on *Indian industrial production*" were to be made only when there was absolutely no other alternative source available or when "shipment from elsewhere (was) out of the question".[88]

The net result was, as Badridas Goenka was to remark in 1946, that "the magnificient opportunity" provided by the war over the last six years for industrial development was "pitifully dissipated".[89] The capitalists vehemently countered the view (a view subscribed to, for example, by Amery, the Secretary of State) that India had made "great economic progress" or had made "great headway in industry" during the war. J.R.D. Tata, G.D. Birla, A.D. Shroff and Sir Sultan Chinoy, who were in London as part of an industrial delegation, countered the Secretary of State's statement at a press conference. They argued that, apart from some growth in armaments, the rest of Indian industry grew very slowly and might even have

[84] Walchand Hirachand, Speech at Bombay, 18 June 1942, *WH Papers*, 613(11).

[85] Sir Rahimtoola M. Chinoy, FICCI, *AR*, 1942, p. 114.

[86] President, FICCI, G.L. Mehta, Press Communique, FICCI, *Corresp.*, 1942, pp. 211–12. See also Walchand Hirachand, speech to members of the Committee of the All India Newspaper Editors' Conference, 18 July 1942, *WH Papers*, fl. 327. For a critique similar to the capitalists by Jawaharlal Nehru, see, for example, *Bombay Chronicle*, 7 January 1942, *WH Papers*, fl. 47(1).

[87] Government of India, Supply Department to FICCI, 14 April 1942, FICCI, *Corresp.*, 1942, pp. 206–8.

[88] Memorandum by Secretary of State, L.S. Amery, 23 May 1943, to Committee on Indian Financial Question, War Cabinet, *War Staff Papers*, L/WS/1/581, IOR, London. The ostensible reason for wanting this shift in policy was that purchases in India were imposing unbearable strains on the Indian economy, causing inflation etc., also see Chapter 5, Sec. I.

[89] FICCI, *AR*, 1946, p. 8.

faced "some retardation". They said that India's overall industrial expansion was worth "approximately £327 million" which compared "very poorly" with, for example, Canada's industrial expansion which they valued at "over £2,000 million".[90] Mahomed Hussein Premji of Indian Merchants' Chamber, Bombay, made another similar comparison to show the poor industrial expansion during the war. He said that while the US increased her industrial production by 144 per cent, i.e., it more than doubled her pre-war production, India's total production did not increase by more than 15 per cent. The "capital index of Indian industrial activity" was said to have risen from 111.10 to about 122 by November 1944, and agricultural production which was a "much larger part of our total production" grew "even less".[91]

The FICCI President, Badridas Goenka, admitted that there was some increase in industrial output in certain industries but he pointed out that this was achieved mainly through the "the reckless overworking of existing plant and machinery" and by increasing the "man-hour shifts". It was not achieved, as in other countries, through the "setting up of *additional productive capacity*".[92]

Apart from emphasizing the fact that genuine industrial development could be measured only by the creation of greater "productive capacity", it was also said that "industrial development" could not be "judged" or measured simply by looking at the increase in total output. The extent of the growth of *basic capital goods industries* was said to be critical. Here, too, the "unique opportunity for India to strengthen the *base of her industrial structure* by fostering key industries and capital goods industries" during the war was "wasted". In fact the government was accused of "systematically discouraging...Indian enterprise from getting a foothold in key industries". While new basic industries were not encouraged the overworking of the existing plant and machinery and even infra-structure like the Railways was said to have led to a situation where India's *industrial structure* was "much weaker at the end of the War".[93]

The task of replacement of the overworked capital goods, which had to be immediately taken up after the war, was said to have reached "almost unmanageable proportions". The FICCI President declared that on the whole, the country had emerged from the war "grossly *unprepared for rapid industrialisation* in the post-war period".[94]

This when the Indian capitalists had drawn out a massive plan of industrial development for the post-war period. It is to their efforts to ensure

[90] *The Times of India*, 31 May 1945 in *WH Papers*, fl. 90(2). See also Badridas Goenka, FICCI, *AR*, 1945, pp. 167–68.

[91] FICCI, *AR*, 1945, pp. 169–74.

[92] FICCI, *AR*, 1946, pp. 6–8, emphasis mine.

[93] *Ibid.*; and Mahomed Hussain Premji, FICCI, *AR*, 1946, p. 169.

[94] FICCI, *AR*, 1946, p. 8, emphasis mine.

that their post-war plan of development did not meet the same fate as their plan of a breakthrough during the war, to see to it that no new disabilities were imposed just when India was at the threshold of independence, that we shall now turn.

VII. The Post-War Years: International Conference on Trade and Employment and the International Trade Organization

A few years before the end of the Second World War the Indian capitalists had already begun to get agitated over the likely nature of the post-war economic order and India's position in it. The rise of the United States as a major economic force was viewed with alarm and a real threat was felt, as the FICCI President, G.L. Mehta put it, of the advanced countries teaming up to impose "a rigid division of the world into economic hemispheres resulting in the perpetual exploitation... of the weaker countries by the more powerful ones". It was said that, just as "the struggle for *raw materials* and *markets* and *fields of investment*" had been "a potent cause of economic rivalries ensuing in war", similarly the "dominant issues after the termination of the war" were likely to be "economic in character", where "powerful nations...(would) tend to revert to a competitive system...struggling for resources and power" over the weaker countries.[95]

Also, the capitalists had, during the war itself, started warning against Britain committing India to certain principles for the post-war period which would erode her "right to fiscal autonomy". It was pointed out that Britain, which had become a debtor country to the United States and was dependent on it for "ever increasing supplies", was herself pressurized to accept certain principles for post-war international trade which, it was feared, Britain would impose on India as well, using the latter's "political subordination". The reference here was particularly to the "economic war aims of the Allied Nations" as embodied in Clauses 4 and 5 of the Atlantic Charter drawn up by President Roosevelt and Mr Churchill in August 1941 and Clause 7 of the Anglo-American Mutual Aid Agreement of 1942. As we saw above, these clauses inter alia provided for "equal access to raw materials and trade" of the world to all countries and for "reduction of tariffs and other trade barriers".[96]

[95] See, G.L. Mehta, "Equal Access to Raw Materials", *Indian Finance*, Yearbook, 1942, in *PT Papers*, fl. 161(1); and G.L. Mehta, President, FICCI, *AR*, 1943, pp. 9–11. Drawing from the experience of the "failure of the League of Nations" and the reversion to war, Mehta added that so long as the advanced countries did not "renounce the domination and exploitation of weaker and backward peoples", so long as there was no "freedom, there (could) be no peace". *Ibid*.

[96] C.B. Mehta, President, FICCI, *AR*, 1942, p. 14; G.L. Mehta and A.D. Shroff, FICCI, *AR*, 1943, pp. 9–17 and pp. 119–26.

These provisions, the capitalists had declared much before the termination of the war, were not acceptable to India. They argued that India must be allowed to have first priority over the use of her raw materials to suit her own developmental requirements. Second, they said that India's needs were different from those of the developed countries which had already industrialized and therefore India must insist on her right to retain tariffs and other trade barriers to the extent that it was necessary for her own industrialization.[97] Furthermore, "powerful countries adopt(ed) the creed of economic internationalism when it suited, their interests", arguing for free trade and free distribution of raw materials and "inducing or compelling" backward countries to accept it, but these same countries "resort(ed) to nationalism when convenient", adopting protection, quotas, exchange restrictions, etc. G.L. Mehta also argued: "The standards of internationalism, which are set up by highly industrialised countries for the reconstruction of the post-war period, are hardly suitable or beneficial to countries like India which still have a vast scope for industrial and economic development." The powerful nations were not to be allowed to "dictate to the weaker nations what their internal economic policy shall be".[98]

Somewhat anticipating the moves which actually began to take shape decades later it was even suggested that rather than "stand alone against the vested interests of more highly industrialised economies", India might "find it advisable to invite like minded nations to join with her" to enable her to assert her economic as also defence interests.[99] This of course was not conceivable before independence.

The capitalists, as we saw earlier (for example, see pp. 306ff.), saw "political autonomy" or a "National Government" as a prerequisite for safeguarding India's economic post-war interests and for promoting economic development.[100] As T.T. Krishnamachari (South Indian Chamber of Commerce, Madras) put it, "if after the war we have no *effective voice* in the deliberations at the peace conference then the inevitable result will be that post-war reconstruction so far as India is concerned" would amount to her being "placed in a worse position than... during the days of pre-war British imperialism".[101] That is why FICCI demanded that "India should have *full autonomy* to determine her post-war economic policy".[102] Also, later, when the question of an international conference to decide post-war economic questions came up, the capitalists demanded that if India sent a delegation

[97] FICCI to Government of India, Commerce Dept., 1 June 1942 and 29 June 1942, FICCI, *Corresp.*, 1942, pp. 42–50. FICCI Resolution on Post-War Reconstruction, 1943, *AR*, p. 53.

[98] FICCI, *AR*, 1943, pp. 10–11.

[99] B.C. Ghose, Indian Insurance Institute, Calcutta, FICCI, *AR*, 1944, p. 124.

[100] See, for example, Press Communique by G.L. Mehta, President, 17 September 1942, FICCI, *Corresp.*, 1942, pp. 290–96; and Muraji J. Vaidya, FICCI, *AR*, 1943, p. 71.

[101] FICCI, *AR*, 1943, p. 64, emphasis mine.

[102] Resolution, FICCI, *AR*, p. 53.

before a National Government was founded then such a delegation should be led by non-official Indian businessmen and guided by them.[103]

The capitalists, wary of India being committed to any international understanding after the war without the approval of the Indian people, strongly objected (in October 1945) to the Government of India ratifying the UN Charter framed in San Francisco without taking the consent of the Indian Legislature. They said that given the manner in which liberation movements in South-East Asia were suppressed, the government should not have assumed the Indian people's support to the UN Charter, treating India "as an appendage of Great Britain for giving that country an extra vote at international gatherings".[104]

VIIa. US Draft Proposals for International Conference on Trade and Employment

The Indian capitalists' fear of the post-war international economic order being determined by developed countries in their own interests seemed to get confirmed with the publication in November 1945 of the "*Proposals* for Expansion of World Trade and Employment" made by the Government of the United States in preparation for an International Conference on Trade and Employment under the sponsorship of the United Nations. The Conference was to lead to the formation of the International Trade Organization.

The Federation, on being asked by the government to comment on these proposals, gave a long and detailed critique.[105] It said at the outset that as in past International Conferences sponsored by countries like the USA and UK where the basis was the maintenance or improvement of the "prosperity already attained by these highly developed countries", ignoring the needs of backward countries, these proposals also sought "to lay down certain basic principles which if accepted at an international conference (were) likely to arrest the...economic development of industrially backward countries like India...." The government and the Indian public were therefore urged to be vigilant and consider seriously the implications of these proposals.[106]

The following were some of the major objections raised by the capitalists to the US proposals. First, a brief economic background of the industrially

[103] B.M. Birla, FICCI, *AR*, 1946, p. 106.

[104] M.A. Master, President, Indian Merchants' Chamber, Press Statement, 24 October 1945, *WH Papers*, fl. 92(1).

[105] See FICCI to Government of India, Commerce Dept., 5 March 1946, FICCI, *Corresp.*, 1946, pp. 12–19. The Indian Merchants' Chamber had produced a Strictly Confidential Note criticizing the proposals in November 1945 itself. See *WH Papers*, fl. 92(2).

[106] FICCI to Government of India, Commerce Dept., 5 March 1946, FICCI, *Corresp.*, 1946, pp. 12–19.

powerful countries, the UK and the USA was given. It was pointed out how Britain herself used tariff protection, special advantages from her Colonial Empire for her services such as shipping, banking and insurance, and Imperial Preferences for her exports to reach a highly industrialized state at the beginning of the war. The whole industrial structure of the USA was also said to have been built upon "a continuous policy of protection for more than a 100 years", as well as upon other state help such as subsidies. (American tariff rates were said to be *much higher* than Indian ones right up to the Great Depression.)[107] Then it was pointed out how during the Second World War Britain became dependent on the USA both for war supplies and funds, and accepted certain conditions for post-war trade in return for US help. The USA on the other hand had tremendously increased her production potential during the war.

It was in this background that FICCI said that in all the declarations made by the USA "commencing with the...Atlantic Charter to the recently enunciated proposals of expansion of world trade and employment, the governing principle has been to stabilise at the highest level reached during the war their industrial development and thus to maintain approximately full employment by assuring to themselves expansion of world trade and access to raw materials". It was pointed out that it was now a "vital interest" of the United States to ensure that trade was "freer" in the post-war years, that Britain gave up the Sterling Bloc and Imperial Preference in empire markets, and that the *general tariff* and other restrictions in international trade *were reduced*.[108]

In order to maintain "high and stable levels of employment", the proposals, it was pointed out, further recommended that each country give an undertaking that "no nation will seek to maintain employment through measures which are likely to create unemployment in other countries, or which are incompatible with international undertakings designed to promote an expanding volume of international trade and investment in accordance with comparative efficiencies of production".

The Federation pointed out that the proposals took a very "narrow view" in assuming that only by achieving "approximately full employment" or a "high level of employment" in the USA and the major industrial countries was it possible to have an "expansion of international trade" and

[107] B.M. Birla argued "even now the general rate of import tariff in America is much higher than our country". FICCI, *AR*, 1946, p. 146.

[108] The references in this and the following three paragraphs are from FICCI to Government of India, Commerce Department, 5 March 1946, FICCI, *Corresp.*, 1946, pp. 12–19, unless otherwise indicated. The US proposals were said to require members (of the International Trade Organization) to arrange "for substantial reduction of tariffs and for the elimination of tariff preferences in conjunction with adequate measures for the substantial reduction of barriers to world trade". See the Confidential Note of the Indian Merchants' Chamber on "Proposals for Expansion of World Trade and Employment" (i.e., the US proposals), November 1945, *WH Papers*, fl. 92(2).

"prosperity in other countries". It said that "unless a serious attempt (was) made at an international level to raise the standard of living of the peoples...of industrially backward countries..., which constitute(d) more than half the population of the world, expansion of international trade and prosperity would not be possible". To raise the standard of living of "industrially backward (areas) like India, China, Egypt, Africa, etc.", it was necessary that they had the right to "resort to developmental tariffs" whether they be to protect their industries or to preserve their raw materials for their own use.

The "acceptance of these proposals without any qualifications", it was said, "would expose underdeveloped countries to their perpetual exploitation by highly efficient and industrialised countries such as the USA and the UK."[109] Any effort by these countries to build up their industries through import substitution using measures such as tariff protection would according to these proposals lead to their being accused either "of adopting measures which are likely to create unemployment in other countries" (i.e., of exporting unemployment) or of their efforts being "incompatible with international undertakings designed to promote an expanding volume of international trade and investment in accordance with comparative efficiencies of production".[110]

The capitalists pointed out some other fundamental anomalies in the US proposals. They said that merely "quantitative" expansion of international trade was not an end in itself, particularly for underdeveloped countries. For them increase in international trade was meaningful only if it also promoted indigenous economic development and led to their industrialization and improvement in standard of living.[111]

B.M. Birla (Indian Chamber of Commerce, Calcutta), looking at the question of expansion of international trade from the point of view of underdeveloped countries, brilliantly countered the assumptions behind the US proposals. He argued that it was not necessary that increase in international trade would lead to increase in employment or increase in the standard of living in the backward countries. He said if international

[109] As D.C. Ghosh, Bengal Industries Association, also put it, "the US proposals would in effect, ...under the guise of free trade" amount to "an attempt to freeze the existing disparity in the standard of living and levels of economic well being, as between the rich and the poor countries". FICCI, *AR*, 1946, pp. 110–13.

[110] See also Badridas Goenka, President, FICCI, *AR*, 1946, pp. 12–13. Goenka further pointed out that the "comparative efficiency of production (were) not invariable or fixed for all time". The proposals however sought to establish the "perpetuation of *existing standards of industrialisation*". FICCI, *AR*, 1946, pp. 12–13, emphasis mine.

[111] See, for example, D.C. Ghosh, Bengal Industries Association, Calcutta, FICCI, *AR*, 1946, pp. 109–13; K.D. Jalan, President, Indian Chamber of Commerce, Calcutta, 2nd Quarterly meeting, 14 November 1946, *WH Papers*, fl. 70. G.L. Mehta had been making this point for quite sometime see, G.L. Mehta, "Equal Access to Raw Materials", *Indian Finance, Yearbook*, 1942, *PT Papers*, fl. 161(1) and FICCI, *AR*, 1943, p. 10.

trade were to lead to rise in standard of living India should have long ago achieved it as she was for many generations forced to carry on a virtually "free" international trade. Further, showing a glimpse of the understanding of the theory of "unequal exchange", Birla argued that international trade under certain conditions (where a country was not industrialized and consequently her productivity was low) would not lead to any rise in standard of living but to its perpetuation at a low level. Referring to the nature of India's existing foreign trade, he said: "What has been happening all these years is that we have been *exporting* goods, namely, raw materials in whose production almost *six men per unit* are required and *importing* manufactured articles where *one man* is capable of producing goods worth an *equivalent unit*. Therefore our standard of living has been kept constantly low."[112] Birla, therefore, argued that while these proposals were aimed at increasing employment in the developed countries, as far as India was concerned "to raise our standard of living we must industrialise". He further pointed out that though for India this would mean import substitution through tariff protection, exchange control or any other necessary restrictions, it would not amount to "exporting unemployment" as India would be buying capital goods. Indian import demand might shift from consumer to capital goods industries and from one country to another but, in the net, India would not be exporting unemployment.[113]

More positively, the capitalists argued that industrialization in the underdeveloped countries and consequent "increase in the purchasing power and standard of living" of their people would lead to the creating of a wider market for goods and services from other countries, maximizing "expansion of world trade and commerce".[114]

One reason why the capitalists refused to link in a basic way India's economic development with expansion in world trade was that they had (anticipating the actual strategy followed by India after independence) long ago declared that India was not going to attempt an export-led industrialization but one based on the home market. As G.D. Birla put it as early as in 1934: "We do not aspire to build industries artificially on the strength of our export trade. Whatever industrial development there will be will have to depend entirely on the home market."[115]

[112] FICCI, *AR*, 1946, pp. 103–9, emphasis mine. A few years earlier S.P. Jain had shown a similar understanding of unequal exchange between India and the USA in the context of the Lease Lend Programme. He argued that the high cost, "in terms of human labour" input of goods given by India should be taken into account, not only its rupee value. He said, if the goods had been produced in America "the cost of those goods would have been 5 or 10 times the (cost) here in India". See, FICCI, *AR*, 1943, p. 129.

[113] FICCI, *AR*, 1946, pp. 103–9.

[114] K.D. Jalan, President, Indian Chamber of Commerce, Calcutta, 2nd Quarterly meeting, 14 November 1946, *WH Papers*, fl. 70.

[115] G.D. Birla, FICCI, *AR*, 1934, pp. 175–76.

Returning to the US proposals which were intended to lay the basis for the International Trade Organization, A.D. Shroff (a major campaigner of the Indian viewpoint during the international monetary discussions, see Ch. 5, Sec. III) pointed out how these proposals adopted the same basis as that adopted by the advanced countries at Bretton Woods in 1944 while discussing the purpose of the International Monetary Fund. The basis was to try and set up an institution which would maintain and promote the high level of employment and well-being already obtaining in the advanced countries. Shroff said that the point raised at Bretton Woods was valid here too, i.e., the question for India was not *maintenance* of standards of living but of "building up the same" from scratch through industrial development, etc.[116]

D.C. Ghosh pointed to some "escape clauses" in the proposals which the US had provided for herself. For example, it was provided that countries with high existing tariffs (and the US had very high tariffs) should be permitted to take action in a manner that would prevent "sudden and widespread injury to domestic producers". This, argued Ghosh, could offer the US a clever device to retain higher tariffs as long as possible. Second, the proposals provided for payment of *subsidies* to home producers under certain conditions including notifying the International Organization. Here again, the US would be the main beneficiary as subsidies (as opposed to tariffs) favoured the rich countries who could bring large resources to bear to pay subsidies.[117]

On the whole, then, the Indian capitalists saw the US proposals as injurious to Indian interests and were unwilling to accept them as they were. As C. Seshachalam, President, Andhra Chamber of Commerce, argued, it did not make sense for India, which was so close to independence, to achieve political independence but concede "economic domination by the major industrial powers of the world", led by the number one industrial power, USA with the tacit agreement of Great Britain. The acceptance of the proposals as they were, he said, would lead to backward countries like India, China and Egypt becoming "permanent markets" for US industry.[118]

Given this overall understanding, FICCI declared that "*unless the very fundamental basis of the proposals (was) materially altered* to meet the requirements of economically underdeveloped countries it would not be in the interest of India and other countries similarly placed to participate in any conference (based on these proposals) for securing international economic co-operation".[119]

[116] A.D. Shroff, FICCI, *AR*, 1946, pp. 100–101.

[117] FICCI, *AR*, 1946, pp. 109–13. See also Note of Indian Merchants' Chamber, on the US Proposals, November 1945, *WH Papers*, fl. 92(2).

[118] C. Seshachalam, FICCI, *AR*, 1946, p. 112.

[119] FICCI to Government of India, Commerce Department, 5 March 1946, FICCI, *Corresp.*, 1946, pp. 12–19; and FICCI Resolution on Proposals for an International Conference on Trade and Employment, FICCI, *AR*, 1946, pp. 98–99.

However, once the Government of India agreed to participate in a Preparatory Conference to examine proposals for an International Trade Organization, the capitalists firmly laid down the alterations and additions to the US proposals that they wanted the Indian delegates to insist on at the Conference. After all, as Badridas Goenka put it, India was not "twice committed to the principles of these proposals" as Britain was.[120]

Apart from the basic "alteration" in the US proposals demanded by the capitalists that, in order to create employment and improve their standard of living through industrialization, underdeveloped countries "should have unrestricted sovereign right to fully resort" to measures like protective tariffs, export–import controls, quotas and subsidies, "measures adopted in the past by highly industrialised countries", the capitalists made certain other demands.[121] For example, it was demanded that a new clause be added saying that it would be one of the purposes of the proposed international trade organization "to facilitate, by suitable provisions for foreign exchange to economically backward members, supply of capital goods, technical personnel and other forms of assistance which are needed for their economic development".[122] Turning around the demand of the advanced countries for "equal access to raw materials", the capitalists demanded "equal access to capital goods" for the underdeveloped countries.[123]

Also, the capitalists wanted the omission of the provision in the US proposals, which required Members to undertake "to refrain from governmentally financed or organised boycotts or campaigns designed to discourage...consumption of products of other members". They said that "under certain circumstances it may be necessary for the Government of a country to use these weapons against another to correct certain injustices perpetuated against the nationals of the country" or "to vindicate the honour of its nationals".[124]

The FICCI President, Lala Gurusharan Lal, made two other demands. First, he said, "the claims of predominantly agricultural countries for the maintenance of fair (and) economic prices for their agricultural and mineral produce should be appropriately recognised by accepting it as one of the purposes of the International Trade Organisation". Second, he wanted

[120] Goenka was here referring to Britain being a party to the Mutual Aid Agreement with the USA and the Anglo-American Loan Agreement. FICCI, *AR*, 1946, pp. 12–13.

[121] See Suggestions submitted by Lala Gurusharan Lal, President, FICCI, at Trade Policy Committee meeting held in New Delhi, 19 September 1946, FICCI, *Corresp.*, 1946, pp. 20–21; and FICCI to Government of India, Commerce Department, 5 March 1946, FICCI, *Corresp.*, 1946, pp. 12–19.

[122] *Ibid.*; and C. Seshachalam, FICCI, *AR*, 1946, p. 114.

[123] G.L. Mehta, FICCI, *AR*, 1946, pp. 126–28; and Gurusharan Lal, 19 September 1946, FICCI, *Corresp.*, 1946, pp. 20–21.

[124] *Ibid.*; FICCI to Government of India, Commerce Department, 5 March 1946, FICCI, *Corresp.*, 1946, pp. 17–18; and Note of the Indian Merchants' Chamber on the US Proposals, November 1945, *WH Papers*, fl. 92(2).

the Indian delegation to "seek acceptance of the principle" that each country be "allowed (the) opportunity to develop its merchant shipping for the carriage of at least 50 per cent of its overseas trade".[125] (Indian Shipping had virtually no share in India's overseas trade.)

Last, the capitalists pointed out that the "future of world trade" depended "upon the willingness of America to effect substantial... reductions in her tariffs" and "the abrogation of Imperial Preference by Britain". Further, the fact that the US had emerged as the largest creditor country, and that there was a tremendous dollar scarcity faced in the world, made it imperative that the US adopted policies, such as reduction in tariffs which would lead to a continuous import surplus, making Dollar funds available to other countries. On the other hand, if the US lapsed back into protectionism, and failed to take other measures such as "financial assistance to those who require it" and free convertibility of currencies, there was a threat of the spiralling development of "restrictionism, currency manipulation, regional blocs", etc., as happened in the decade preceding the war during the Depression years. If the "larger cause" of the development of "world trade and employment" was to be furthered, it was necessary that "the Great powers rise above their narrow national interests... whatever the temporary losses involved" and that they "rather than look upon the field of international trade as the hunting ground of power politics" recognized "the legitimate needs and requirements of the backward countries".[126]

Though they repeatedly pointed to the danger and possibility of the international conferences and organizations being dominated by the advanced countries, the Indian capitalists were not in favour of boycotting them for that reason. The answer was seen not in "isolationism" but in insisting on international cooperation on the basis of "correct criteria" and fair terms. India's bargaining position was seen as strong enough for her not "to be stampeded into" accepting positions under the "joint efforts of the Anglo-American businessmen".[127]

Partly the confidence was born out of the hopes created by imminent national independence. As A.D. Shroff put it, "we are on the threshold of attaining our national status and will be able to participate in these conferences with an independent mind and with full scope to express our wants, requirement and interests". To some extent the confidence also came from India's specific economic position. B.M. Birla pointed out that India's bargaining position in these forums was strong because of her marginal

[125] Suggestions of Gurusharan Lal at Trade Policy Committee meeting, 19 September 1946, FICCI, *Corresp.*, 1946, pp. 20–21.

[126] Note of the Indian Merchants' Chamber, on the US Proposals, November 1945, *WH Papers*, fl. 92(2).

[127] This and the next paragraph is based on B.M. Birla and A.D. Shroff, FICCI, *AR*, 1946, pp. 103–9 and pp. 101–2, respectively, except where indicated.

dependence on foreign trade (an aspect which has till today kept India relatively free of international domination). He pointed out that the proportion of India's exports and imports was very small compared to her internal trade and total production. Further, he said that India's exports at that time "stood on their own merits", some items like Jute commanding a virtual monopoly position. As for the other major pre-war export items such as food and raw cotton; there was currently a food shortage in India, cotton acreage was shifting to food crops and the indigenous demand for raw materials was increasing, thus releasing the pressure to export those commodities. Regarding Indian imports, Birla said that "nobody is going to restrict his export if there is a buyer". In this situation, he argued, joining the International Trade Organization was not something critical to Indian interests and therefore India could bargain on the basis of this strength.[128]

While making full preparations for putting up a strong presence at the proposed Conference, the capitalists simultaneously raised the demand with the Government of India that India finalize its own long-term tariff policy "before she sent her representatives to attend the proposed International Trade Conference". It was said that the government should not wait for "international conditions to settle down for evolving their tariff policy" as "we shall then be faced with a fait-accompli". In any case, "it would be unfortunate if an Indian delegation went to a conference of this character without making up its mind as to what fiscal and tariff policy our country needs and what would be their attitude…at such a conference".[129]

VIIb. First Preparatory Committee Meeting, London

The first preparatory committee meeting of the International Conference on Trade and Employment to create an International Trade Organization was held in London from 15 October to 26 November 1946. Nineteen countries were represented. The Federation representative in the Indian delegation to the Conference was its Secretary, D.G. Mulherkar (as M.A. Master, the original choice, had to drop out at the last moment to

[128] D.C. Ghosh pointed to an aspect in which India had a relatively weaker bargaining positions than other countries. The fact that India had low tariffs left it little room to bargain as compared with countries which already had very high tariffs. FICCI, *AR*, 1943, pp. 110–13.

[129] G.L. Mehta, FICCI, *AR*, 1946, pp. 125–26; and G.L. Mehta at Meeting of the Committee of Indian Chamber of Commerce with A.R. Dalal, Planning and Development Member, 21 December 1946, *WH Papers*, fl. 70. Ardeshir Dalal's reply was that though it was for various reasons not possible to lay down a long-term tariff policy right away, India must "argue her case at the International Trade Conference and see to it that the Conference realised that certain *special provisions* must be made for backward countries… to protect their industries against superior competition" while agreeing with "the general policy of reduction of tariffs to encourage and liberalise international trade", *ibid*.

attend the International Shipping Conference at Washington). Among others in the Indian delegation were its leader, R.K. Nehru, ICS, P.S. Lokanathan, editor of the *Eastern Economist*, and Prof. B.N. Ganguli.[130] Interestingly, the delegation, which apart from Mulherkar and Lokanathan (pro-business intellectuals) consisted of academics and bureaucrats, took positions broadly on the lines that the capitalists had been arguing for quite sometime.

Mulherkar, in his long report on the London meeting, praised the work of the Indian delegation in difficult circumstances given the fact that the Draft Charter (proposals) prepared by the US government, if accepted, would have been gravely injurious to Indian interests. He said that the Indian delegation, through active participation and help from other delegations like the Australian delegation, was able to bring about in the proposals "improvements which either would safeguard the position of the underdeveloped countries with regard to the use of protective tariffs or would not prevent them from utilising other effective means of creating employment and raising the standard of living of (their) peoples".[131] The *Eastern Economist* also hailed the efforts of the Indian delegation saying that it "virtually took the lead on behalf of the underdeveloped countries" in modifying the US draft proposals to suit the special problem of the underdeveloped countries. It even managed to get included in the Charter "an entirely new chapter in respect of the obligations of advanced countries for the development of backward countries".[132]

The capitalists, while admitting the achievements of the Indian delegation, simultaneously felt that the changes achieved were far from adequate.[133] Mulherkar's report brought out both these aspects. As for the changes in favour of underdeveloped countries, the provision that members were not to adopt measures which would create unemployment in other member countries was altered to the general objective of avoiding unemployment and underemployment. Further, there was to be "no restriction on the liberty of a country to take any individual decision to achieve" this objective, provided, of course, that it was "compatible with the other ...provisions of the International Trade Organisation".[134]

Similarly, the Conference was pursuaded not to insist on "uniform labour standards throughout the world" and to agree that labour standards would be "related to national productivity". The necessity in

[130] The rest of the delegates were H.C. Malik, Prime Minister of Patiala State, A.I. Quereishi, Economic Adviser to the Government of India and M.A. Mulki (Secretary to the Delegation) Under Secy., Commerce Department, Government of India, FICCI, *Corresp.*, 1946, pp. 250ff.

[131] See Confidential report submitted by D.G. Mulherkar, dated 20 December 1946, on the proceedings of the First Preparatory Committee meeting at London, 15 October to 26 November 1946, FICCI, *Corresp.*, 1946, pp. 252–63 (henceforth referred to as *Mulherkar Report*, 1946).

[132] *EE*, 3 January 1947, pp. 12–14 and 40, more on this later.

[133] See, for example, Lala Gurusharan Lal, President, FICCI, *AR*, 1947, pp. 13–14.

[134] *Mulherkar Report*, 1946.

underdeveloped countries of having lower wages, at least to begin with, was thus recognized.[135]

An important achievement was that, as a result of the repeated demands of the Indian and the Australian Delegations, "a Special Committee" was set up under the Chairmanship of Mr Malik (Secretary to the Indian Delegation) "to discuss the question relating to industrial and economic development". Some of the important recommendations of this Committee were, (*a*) that a chapter be inserted in the Charter for the International Trade Organization (ITO) providing for an undertaking by all members to promote industrial and general economic development, (*b*) that the ITO take "responsibility to advise underdeveloped countries concerning its plans for economic development and to provide for such Members technical assistance in completing and carrying out such programmes", and (*c*) that "members would agree to offer all reasonable facilities within their power to underdeveloped countries for their industrial and general economic development", keeping in mind that to achieve that they needed capital funds, capital goods, advanced technology, trained workers and managerial skill.[136]

On the negative side, while "the point of view of the Indian delegation" that protective measures could be necessary to develop industries in underdeveloped countries was "fully recognised" by the conference, the procedure outlined in the draft Charter "for resorting to protective measures by underdeveloped countries" was considered "far from satisfactory" by the capitalists. According to this procedure an underdeveloped country proposing to employ protective measures had to first inform the International Trade Organization which after conducting an enquiry would give its decision. Mulherkar reported that despite the best efforts of the Indian delegation, the point was not appreciated "that no country would like to surrender to the Organisation its liberty and discretion to protect" its industries through developmental tariffs or other measures. He therefore hoped that "the Government of India would...lodge their strong dissent from the recommendations...with regard to the procedure under which protective measures (could) be brought into play by an underdeveloped country...."[137] The Federation passed a strong resolution condemning the procedure recommended saying "that India and the other underdeveloped countries cannot surrender to the Organisation their inherent right, liberty and discretion to adopt effective measure to protect and develop their...industries". It also demanded, in the words of its President, that "the Interim Government insist through its Delegation at the forthcoming

[135] *Ibid.*
[136] *Ibid.*
[137] *Ibid.*

conference" on this "unquestionable right" of every country to protect its industries through developmental tariffs, etc.[138]

Another area where the Indian Delegation failed was regarding the Provisions (in the US Draft Charter) to deal with "unfair and restrictive business practices". The existing Provisions related to unfair business practices in respect of commodities only, while the Indian Delegation wanted these Provisions to also cover unfair and restrictive business practices with regard to "services such as shipping, banking and insurance". In spite of repeated efforts by the Indian delegation and support from the delegations of countries such as Brazil, Cuba, Chile and the US, "the view which prevailed" was that these provisions "should only relate to commodities and not to services".[139] Given the fact that India suffered a great deal from the restrictive practices practiced by powerful companies and cartels dealing with services, it was not surprising that FICCI fully endorsed the Indian delegation's position on this question and demanded that "the Government of India make a direct reference to the Economic and Social Council of the United Nations...and persist in the inclusion of 'services'" to relevant provisions of the Charter.[140]

The Federation also suggested that the Government of India "press for India's claim for adequate representation" on the Executive Board and Secretariat of the proposed International Trade Organization.[141]

VIIc. Second Preparatory Conference, Geneva

The Second Report of the Preparatory Committee of the United Nations Conference on Trade and Employment was finally adopted in Geneva on 22 August 1947 following deliberations which commenced on 10 April 1947. This report was to be "finally considered by the World Conference which (was) to commence its Session in Havana on 21 November 1947".

The Draft prepared by the 1st preparatory meeting in London, to which the Indian capitalists had raised major objections from the point of view of underdeveloped countries, was discussed at the Geneva meeting. The Indian delegation was once again reported to have "tried their level best to effect changes in certain important articles of the Draft" to meet some of

[138] FICCI Resolution on International Conference on Trade and Employment and Gurusharan Lal, President, FICCI, *AR*, 1947, pp. 28–29 and 13–14 respectively. See also M.A. Master in *National Standard*, 30 January 1947, *WH Papers*, fl. 92(2).

[139] *Mulherkar Report*, 1946. Mulherkar noted in this context that "powerful international combine and cartel interests were fully helped by the Government of the United Kingdom, Netherland, and Belgium", partially explaining the above denouement. *Ibid.*

[140] Resolution, FICCI, *AR*, 1947, pp. 28–29. See also, M.A. Master in *National Standard*, 30 January 1947, *WH Papers*, fl. 92(2).

[141] Resolution, FICCI, *AR*, 1947, pp. 28–29.

these objections, though a few basic objections remained. G.L. Mehta, an ex-President of FICCI, represented FICCI in the Indian delegation.[142]

The Indian delegation's efforts were successful in getting it declared that one of the objectives of the International Trade Organization would be "to foster and assist industrial and general economic development particularly of those countries which are still in the early stages of industrial development" and to enable all countries to have equal access to "productive facilities such as capital goods, technology, patents, etc.", which were "needed for their economic prosperity and development". The Indian delegation was able to secure its point of view despite "persistent attempts by certain delegations" and organizations like the International Chamber of Commerce to maintain that "the problem of economic development (lay) outside the scope of an International Trade Organization" which should only play the role of promoting "the freest possible multilateral exchange of goods, services, capital and men".[143]

A new subject that was introduced at the Geneva Conference was regarding the "treatment of foreign investments". Mulherkar in his note pointed out certain shortcomings in the provisions accepted under this heading. He pointed out that "while one can understand the force of the suggestion that in respect of international investments acceptable to a country, reasonable opportunities upon equitable terms should be given to such investments, it is not understood why should such treatment also be given to the existing foreign investments". This was particularly so because "in a number of underdeveloped countries...particularly...those... under Colonial Administration foreign investments were forced upon the colonial possessions and as such were not acceptable to them". It was therefore said that it would not "be fair to call upon such underdeveloped countries to afford equal treatment on par with their nationals and to afford security for such existing investments".[144]

However, the Indian delegation, Mulherkar noted, succeeded in "radically changing" the article dealing with foreign investments by getting a series of provisions passed, the scope of which was so wide that, "if the Government of a country (took) adequate precautions" and laid down the necessary conditions and restrictions before the Charter came into force, the obligations under this article "would not be so onerous or harmful in their effect".[145] The FICCI President lost no time, therefore, to urge the Government of India to "without any further delay" lay down their policy

[142] FICCI, Secretary, D.G. Mulherkar's Note on the Geneva Draft, 20 October 1947 (henceforth *Mulherkar Note*, 1947). The account of the Geneva Conference below is based on Mulherkar's note except where indicated.

[143] *Ibid*.

[144] *Ibid*., emphasis mine.

[145] *Ibid*.

regarding foreign investments, viz., the categories acceptable, the controls and other requirements they would have to comply with and so on.[146]

As for the issue raised by the Indian delegation at the first meeting in London that not only "commodities" but "services" also be included in the provisions dealing with "unfair and restrictive business practices", it came up again at Geneva, with the British delegation firmly opposing the Indian point of view.[147] However, at the insistence of the Indian and the Cuban delegation the issue was discussed by a commission of the United Nations and eventually a new article was introduced which recognized that services like transport, telecommunication, insurance and banking were "substantial elements of international trade and that any restrictive business practices in relation to these may have harmful effects...." The article also provided for complaints being lodged with the International Trade Organization "in case of the existence of restrictive business practices in relation to these services". This was an important point gained by the Indian delegation.[148]

The Indian delegation was however unable to get changed, despite its "stout opposition", the principle that "prior approval of the ITO (International Trade Organisation) was necessary" before a member adopted any tariff or other restrictive measure which conflicted with "any provisions of the Chapter relating to Commercial Policy". This principle as we saw earlier, had been strongly opposed by the Indian delegation and the Indian capitalists on the ground that it amounted to surrendering to the Organization the "unfettered" right of a country to take effective steps including protection to promote her economic development.[149] After the Geneva Conference, the FICCI President again expressed his disapproval of this principle and hoped that India would succeed "in her fight at the (next) Conference at Havana" on this question.[150] The story of how independent India continued to bargain at international forums and the stance taken then by Indian capitalists falls outside the scope of this work.

What is evident however is that the Indian capitalists had kept up an unrelenting vigil trying to ensure both during the war and after that Indian economic interests were not sacrificed by Britain and later by a combination of the advanced capitalist countries led by the USA. Till independence this attempt to protect Indian interests involved a struggle with

[146] FICCI, *AR*, 1948, pp. 12–13.

[147] The British position was understandable given the fact that Britain had for long exercised a semi-monopoly position in services like shipping and had major interests in other services.

[148] *Mulherkar Note*, 1947.

[149] Mulherkar also pointed out that "prior approval" in a context, where the "personnel of the ITO (were) weighted" being recruited from highly industrialized countries, would militate against applicants from the underdeveloped countries. *Mulherkar Note*, 1947.

[150] FICCI, *AR*, 1948, pp. 12–13.

the colonial state as well. After independence, in the words of the FICCI President, once "the identity of interests between the state and the people"[151] was established the task in one sense became somewhat easier. While the capitalist class could now rely on the strength of the independent state to bargain with international capital, the anti-imperialism of the Indian capitalist class too in no small measure strengthened the hands of the independent national state in pursuing the same objective.

[151] FICCI, *AR*, 1948, p. 13.

TEN

Foreign Capital

I. Introduction

The Indian capitalist class, attempting to develop independent capitalism in India, nearly 200 years after the first industrial revolution in England and nearly 100 years after more than half-a-dozen other countries had joined the race, was faced with an extremely difficult and complex task. Though, taking advantage of the depression and the world wars, when the ties of the colonial economy with the metropolis were weakened, the Indian capitalist class had emerged with increased strength and large accumulation, the dependent position of Indian capitalism was still maintained as the "structural aspects of colonialism were at no stage shattered or transformed...."[1] Not only was the capitalist class handicapped by the distortions and backwardness of the colonial structure and the continuance of imperialist political domination, it was also faced with the problem of being such a late starter in a highly competitive and rapidly transforming world capitalist system. It was to overcome this situation that the Indian capitalists evolved a many-pronged strategy.

One of the crucial components of such a strategy was, naturally, the determination of its attitude towards foreign capital. On the one hand, the Indian capitalist class had to carve out its existence and growth in competition with foreign capital (both outside and within the country) which it had to ruthlessly oppose, and on the other, it depended on the assistance of foreign capital and the colonial state to develop the infrastructure of a modern industrial economy, given the primitive technological and industrial base of the Indian economy. (It is important to clarify that the dependence was due to the overall backwardness of the system and not because the class itself was tied up with foreign capital in a subservient position in

[1] Chandra, "Colonialism and Modernisation".

its own areas of activity.) In this chapter I shall examine the attitude of the Indian capitalist class towards foreign capital, and how it sought to resolve this dilemma. In the process the Indian capitalists often adopted seemingly contradictory stances regarding foreign capital which were misunderstood by many contemporary commentators as well as later analysts.

This question acquires added significance because the general understanding of the position of the Indian capitalist class vis-à-vis imperialism has to a large extent depended on the varying characterizations of its relationship with foreign capital. An exclusive treatment of or an overemphasis on the "dependence" (on foreign capital) aspect of the class has often led to seeing the capitalists as periodically "coming to terms with imperialism"[2] or "looking forward to an Indo-British share-out of political power in India instead of independence".[3] Others have interpreted it as the reduction or even disappearance of any major conflict between the bigger Indian capitalists and foreign capitalists, the former being now seen as finding it in their class interest to "welcome foreign capital overcoming their patriotic misgivings about domination by foreign capitalists".[4] Lastly, it has been suggested that the Indian capitalists were overcome by this dependence on foreign capital leading to their giving in to superior imperialist interests which now managed to continue their domination in an altered form.[5]

The above views fail to grasp the point that simultaneous existence of both an element of dependence and a sharp and often increasing conflict with foreign capital was possible. Second, it is not seen that the "softening" of the Indian capitalist class's attitude towards foreign capital or the partial "concessions" it made to foreign capital were not always necessarily only a reflection of its dependence on foreign capital and foreign capital's success in taking advantage of its superior position. This willingness to compromise in fact also reflected the growing self-confidence of the Indian capitalist class as a result of the relative growth undergone by the class itself, which greatly improved its position in the Indian economy vis-à-vis foreign capital.[6] Also, it reflected the capitalists' hope of being able to utilize the "resources and prestige" of an independent national state power as a strong bargaining point which would enable it to use foreign capital for its own interests without being swallowed up by it.

The basic argument in this chapter will be that the Indian capitalist class throughout our period consistently and clearly showed awareness of its

[2] See, for example, Levkovsky, *Capitalism in India*, pp. 321 and 318–19.
[3] Bose, *Indo-British Big Business Deals*, pp. 42ff.
[4] Bagchi, "Foreign Capital and Economic Development in India", p. 61.
[5] Dutt, *India Today*, pp. 192–93.
[6] See Chapter 1 in this volume.

conflict with foreign capital. Over time, as the class itself grew, this conflict became sharper and it began to very strongly press for the restriction if not the abolition of the influence of both existing as well as future foreign capital. This was to be done through various channels, state intervention at various levels being the most important one. However, in spite of its clear opposition to foreign capital, the Indian capitalists increasingly realized, given the backward state of Indian capitalism, that a transformation of the economy on a scale planned by them was impossible without allowing some foreign capital in the economy in one form or another. This realization combined with their growing self-confidence led to a certain change in their attitude towards foreign capital after the mid-1940s. Instead of adopting an attitude of total hostility, the Indian capitalist class now wanted to utilize foreign capital for its independent growth. This softening was however never at the cost of its accepting "foreign domination" or its ceasing to see the continued existence of its conflict of interests with foreign capital. Control on the volume, nature and terms on which foreign capital was to be allowed was to be its guarantee against the danger of foreign capital leading to foreign domination.

The attempt here will be to see the position of the Indian capitalist class as it itself evolved it. It would seem clearly advantageous, wherever possible, to investigate the position adopted by a class itself rather than having to impute to it a position solely derived from the objective situation faced by it. An objective economic situation of dependence and relative weakness, for example, does not necessarily produce a capitalist class (in a colonial or post-colonial society) which succumbs and tries to locate a comfortable niche in this dependence syndrome, but may produce the opposite response of sharp opposition and spirited attempts to end this dependence and set out to develop on its own.

Last, whatever be the attitude towards foreign capital of the Indian capitalists at any particular point of time, it always remained within the broad framework which they had formed as early as 1928. In the words of Purshotamdas Thakurdas "Indian commerce and industry are intimately associated with and are, indeed, an integral part of the national movement, growing with its growth and strengthening with its strength", they cannot therefore "make terms with the one or the other (foreign government or foreign commercial interests) at the expense of national interests".[7]

II. Reservation

Given the fact that the Indian capitalist class itself had grown largely independent of, and in competition with, foreign capital and rarely as its junior

[7] Presidential Speech, FICCI, *AR*, 1928, p. 4; and FICCI, *AR*, 1942, pp. 161–62.

partner,[8] its attitude towards foreign capital was mainly concerned with how it could ensure its own continued existence and future growth. Further, this attitude is to be seen within the overall perspective of the Indian capitalist class trying to strike out an independent path which involved the quick transformation of the economy on modern capitalist lines *under its own hegemony*.

Foreign capital was seen as an obstruction to the attainment of this goal. "India has realised to her cost that British capital and control have stifled India's political aspirations, crippled her financial strength and contributed only to her economic subjection", declared Walchand Hirachand.[9] Entry of foreign capital in crucial areas, it was argued, would not only wipe out Indian (national) concerns but also "fetter the hands of the future popular government of the country towards industrialization on national lines".[10] Given this understanding, the Indian capitalist class set out to restrict the control and influence of foreign capital—rather timidly in the beginning but becoming increasingly loud and belligerent over time.

As early as the 1920s, demands were being made to restrict the free and unconditional entry of foreign capital. G.D. Birla, Narottam Morarjee, Jamnadas Dwarkadas, Ibrahim Rahimtoola (Chairman) and T.V. Seshagiri Ayyar in their minute of dissent to the Fiscal Commission Report (1921–22) argued that under a policy of protection foreign capital should not be allowed free entry as it would lead to the consumer paying a higher price while the profits would be taken out of the country. If these profits remained within the country the "national wealth" could be increased in a shorter period of time.[11] It was therefore suggested that in the protected areas (*a*) all industrial companies should be required to be incorporated and registered in India in Rupee capital (which would provide opportunity

[8] See Bagchi, *Private Investment in India*.

[9] Walchand Hirachand (WH), 2 May 1945, File of Lalchand Hirachand (LH), No. 143, Part I, *WH Papers*, G.L. Mehta quoting President Wilson said "A country is dominated by the capital invested in it. It is a fundamental idea that in proportion as foreign capital comes in and takes hold foreign influence comes in and takes hold. Therefore processes of capital are in a sense processes of conquest." FICCI, *AR*, 1945, p. 118.

[10] FICCI to Government of India (GOI), Dept. of Commerce, quoted in FICCI(*Proc. of EC*), 1934, p. 21. To the "spurious claims" of "British financiers and pseudo academic economic theorists... that the influx of British capital into India...(led to) her material progress" the "effective answer" was first that "there was in reality no such influx of capital at all, and that the (foreign) assets represented only the reinvestment of a fraction of the profits and pensions made in India by the servants of the company" and second that "the investments necessitated an annual drain for external remittance which left the country impoverished and unable to develop her resources" *Eastern Economist*, 20 August 1943, p. 973. The *Eastern Economist* started in 1943 was an important business journal owned by the Birlas. It generally held views quite close to that of the FICCI and that of the dominant section of the Indian capitalist class.

[11] *Indian Fiscal Commission Report*, 1921–22, Minute of Dissent, paras 48, 52 and 53; and also Indian Chamber of Commerce (Calcutta) to FICCI, 22 June 1935, FICCI, *Corresp.*, 1935, pp. 4–9.

of investment to Indian capital and the retention of industrial profits to that extent in the country), (*b*) there should be a "reasonable" proportion of Indian directors on the Board and "reasonable" facilities should be offered for training of Indian apprentices.[12] It was further stipulated that the government should legislate or take other steps to prevent foreign companies from negating the purpose of the restrictions imposed by the government by forming private companies, instead of joint stock companies, thus providing the whole capital themselves and monopolizing the profits.[13] To ensure that registration of companies in Rupee capital did not merely lead to foreign capital coming in through such companies; it was suggested in 1925 that these companies must keep their subscription lists open for a minimum of 30 days and that preference should be given to Indian subscribers up to 50 per cent of the amount of shares offered.[14] The insistence on a "proportion" of directors being Indian (despite the fact that in a public company if Indians could buy shares then they could have acquired a share of the directorate simply through the democratic procedure) was linked to the awareness of a "racial consideration" that usually operated on this question.[15]

The capitalists' demand for a share in directorates and a certain preference to Indian shareholders in foreign companies wishing to enter areas which were either protected or got state assistance through subsidies, etc., was very soon enhanced to a demand for the utilization of government legislation to *reserve certain areas* for Indian companies. Such reservation was insisted on mainly in key sectors of the economy such as those utilizing natural resources (oil, mining, forests, etc.), shipping, banking and later automobiles, aviation, locomotives and so on (other key sectors such as, iron and steel, cotton-textiles, and later sugar, cement, paper, heavy chemicals, etc., being already largely in Indian hands). From the very beginning it was made amply clear that what was meant by an Indian company was not merely a company registered in India in Rupee capital, as the

[12] *Indian Fiscal Commission Report*, 1921–22, Minute of Dissent, paras 47, 48 and 51. The demand for restriction on foreign companies getting special concessions or subsidies from the government, as made by the Indian capitalists, was more or less acceptable to the government. *Ibid.*, main report, para 292; and *External Capital Committee Report*, Calcutta, 1925, para 21. There was, however, a retreat from this position in the 1930s under pressure from British interests which demanded that Indian shipping companies, for example, could not be given subsidies and other help which British companies, particularly those registered in India, were not given, a position severely criticized by the Indian capitalists who demanded that all such governmental help was to be given only to Indian-owned, controlled and managed companies.

[13] *Indian Fiscal Commission Report*, 1921–22, Minute of Dissent, para 54.

[14] *Report of the External Capital Committee*, 1925, para 25. This view was put forward by M.M. Malaviya in his minute of dissent to the above report which was otherwise in overall agreement with the minute of dissent of the *Fiscal Commission Report*, 1921–22.

[15] *Indian Fiscal Commission Report*, 1921–22, Minute of Dissent, para 55.

government interpreted it, but a company with predominantly Indian controlling interests—which meant that 75 per cent of capital, and 75 per cent of the board of directors with voting power were to be Indian.[16] As Purshotamdas Thakurdas in his presidential address to FICCI (1928) put it, Indian commercial interests have a right to the *predominant* share of commerce and industry in India just as the British do in Britain.[17]

The earliest and most organized demand for reservation for Indian capital was made in the case of shipping where British shipping interests had virtually wiped out their Indian counterparts. Even in 1930, less than 15 per cent of the coastal trade was in Indian hands; in overseas trade the Indian share was negligible—a mere 2 per cent.[18] Walchand Hirachand, who was Chairman of Scindia Steam Navigation Company, and who pioneered the effort to re-establish Indian shipping in the twentieth century with reasonable success, entered a phase of severe bargaining and struggle with the Government of India, the British government and the British interests represented by formidable figures like Lord Inchcape of the shipping monopoly, the P&O.[19] This struggle, both inside and outside the legislature, had the full support of FICCI. Ever since 1927, FICCI almost every other year passed strong unanimous resolutions and approached the government directly to take suitable action to ensure growth of Indian shipping. The demands, stronger and larger over time, were essentially for reservation of coastal shipping for Indians, securing a higher percentage of overseas shipping for Indians,[20] and later the establishment of the shipbuilding industry in India with government help but entirely under Indian control and management.[21]

Similarly, regarding natural resources it was stated that the "government should not permit non-Indian companies to exploit the mineral resources of the country which are valuable and irreplacable public assets".[22] The Federation on this ground took a very strong view of the

[16] The Reservation of Coastal Traffic of India Bill, *LAD*, 1. 5, 1928; *Economic and Overseas Department* (E&O), L/E/9/863, 1925, IOR, London; and FICCI, *Proc. of EC*, 1938, pp. 24–26.

[17] FICCI, *AR*, 1928, President's speech.

[18] Speech by H.P. Mody, Indian Merchants' Chamber (IMC), FICCI, *AR*, 1930, p. 150.

[19] For Walchand's magnificient attempts to threaten, bribe or pressurize British companies into allowing the Scindias a share, see *E&O. Dept.*, L/E/9/863 and L/E/9/912, etc., IOR. A fuller treatment of this aspect unfortunately falls outside the scope of this work.

[20] For example, see *Report of Indian Industrial and Commercial Congress* (IICC), 1927, p. 72 (The IICC was a precursor to FICCI); FICCI, *AR*, 1928, Resolution on shipping; FICCI, *AR*, 1930, pp. 149–50; FICCI, *AR*, 1931, pp. 9–10; FICCI, *AR*, 1935, pp. 72–78; FICCI, *AR*, 1937, pp. 42–43; FICCI, *AR*, 1939, pp. 24–30; Indian National Steamship Owners' Association (Bombay) to Imperial Shipping Committee (London), 6 April 1937, and statement submitted by Walchand and D.S. Erulkar to Imperial Shipping Committee, 28 May 1937, in FICCI, *Corresp.*, 1937, pp. 19–30 and 35–40.

[21] FICCI, *AR*, 1945, p. 23; and *AR*, 1927, p. 72.

[22] *IICC*, 1927, Resolution No. 27 moved by IMC.

government giving a concession to ICI, a large British corporation, for 50 years to utilize mineral resources needed for developing a key industry like heavy chemicals.[23] As for the development of oil, which was seen as a crucial source of power, it was to be "strictly controlled in the national interests and (was) not to be allowed to pass under foreign control".[24] In fact, when prospecting and development rights for oil in India were being given by the government to foreign companies, FICCI raised a big furore, demanding that such key sectors were to be reserved "exclusively for Indian national interests",[25] and went so far as to demand that the "government should terminate mining leases and discontinue prospecting licences given to...non-Indian firms" or buy them back.[26]

In areas which were to be newly developed, such as aviation, G.L. Mehta of the Indian Chamber of Commerce (Calcutta) warned that "once a non-Indian enterprise...is established, it will be very difficult to regulate its conduct subsequently for the safeguarding of national interests. (The case of the paper mill-industry being apposite in this connection.)"[27] The Federation accordingly moved that "in any scheme for the development of civil aviation in this country the government will strictly adhere to the condition (of)...reserving a substantial majority—seventy-five per cent of share capital and directorates for Indians...and will not relax these conditions on any account".[28] When the government, despite this warning, concluded an agreement for airmail services with Indian Trans-continental Airways, a company dominated by the British Imperial Airways Ltd. which held 51 per cent of the capital, FICCI, in a representation, recorded their "strong disapproval and condemnation of the attitude of the Government of India in perpetuating the existence of non-Indian vested interests in the entirely new field of civil aviation...".[29] It was further stated that since the Government of India, "subject to the ultimate direction of His Majesty's Government", was incapable of representing Indian interests, in future it must consult Indian non-official commercial and industrial interests before concluding any similar agreement and invite non-official Indian delegates to any international conference—a provision admittedly unnecessary for countries with a national government.[30]

[23] FICCI to GOI, Dept. of Commerce, November 1934, FICCI, *Proc. of EC*, 1934, p. 21.

[24] N.R. Sarkar (President) in FICCI, *AR*, 1934, p. 38.

[25] FICCI to GOI, *Commerce Dept.*, 29 January 1945; and FICCI to GOI, Dept. of Labour, 21 May 1945, FICCI, *Corresp.*, 1945, pp. 120–23.

[26] FICCI to GOI, Dept. of Labour, 1 October 1945, and 21 May 1945, FICCI, *Corresp.*, 1945, pp. 120–23.

[27] FICCI, *AR*, 1932, p. 29

[28] *Ibid.*, pp. 27–28; and FICCI, *AR*, 1940, pp. 24–25.

[29] FICCI, *Proc. of EC*, 1938, pp. 24–26.

[30] FICCI to GOI, Dept. of Post and Air, New Delhi, 29 June 1943 and 12 October 1943; FICCI, *Corresp.*, 1943, pp. 265–68 and pp. 270–74. This demand for associating Indian non-official

In banking, the situation was one where virtually the entire foreign trade was financed by non-Indian exchange banks, which were now trying to make inroads into the financing of internal trade as well. Given the fact that industrial banking was yet to make a big start, the bulk of banking operations were still confined to the financing of trade. The Indian capitalists, first, wanted to prevent the entry of foreign banks into the financing of internal trade (the volume of which was estimated to be 15 times that of foreign trade),[31] through a system of licensing. In their minute of dissent to the Central Banking Enquiry Committee Report, Purshotamdas Thakurdas, D.P. Khaitan, R.K. Shanmukham Chetty, Mukhtar Singh, V. Ramdas Pantulu and M. Jamal Mohammed recommended that licences to establish branches upcountry, i.e., anywhere outside the main ports of India, should be granted only to Indian joint-stock banks and not to non-Indian banks.[32] Manu Subedar, in his minority report, went one step further and suggested a number of other restrictions to be placed on non-Indian exchange banks. For example, existing branches of the exchange banks in the interior were to be withdrawn within five years; they were not to receive deposits in India from Indian-born persons or joint-stock companies registered in India,[33] they were even to give a guarantee that their "officials shall not participate in any anti-national movement in India". Furthermore, such banks were not to be eligible for rediscounting facilities, etc., from the Central Bank and so on.[34] Later (in 1945), commenting on the important deficiencies in the Bill to consolidate and amend the law relating to banking companies, FICCI went further and said that "it was necessary to provide in the Bill that no bank can be incorporated in India unless seventy-five per cent of its capital entitled to vote is possessed by Indians", and that "a system of licensing banks registered outside British India or the UK should not only apply to future cases of such banks but also to the existing banks", to enable India to retaliate against foreign governments which discriminated against Indian banks.[35]

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commercial and industrial interests with any economic decision making body was one of the most persistent demands of FICCI, which the Government of India slowly but progressively gave way to though holding on to the crucial areas like finance till virtually the very end.

[31] *Central Banking Enquiry Committee Report* (*BECR*), 1931 (Calcutta), 1.1, minute of dissent, para 25.

[32] *Ibid.*, para 31.

[33] This was (*a*) to ensure that Indian trade and industry had "first claim" on the limited Indian savings and (*b*) to test the British "boast" that British finance was being used to finance Indian foreign trade. *BECR* 1.2, minority report.

[34] *Ibid.*; and FICCI to GOI, Dept. of Commerce, 10 December 1945, FICCI, *Corresp.*, 1945, pp. 14–16.

[35] FICCI to GOI, Legislative Dept., 5 February 1945, FICCI *Corresp.*, 1945, pp. 189–90. Also see the above for details of other restrictions envisaged on non-Indian banks. The *Eastern Economist* severely criticized the bill for treating banks registered in UK on the same footing as those registered in India, calling it "politically obnoxious and economically vicious". 12 January 1945, p. 33.

As for the financing of foreign trade by exchange banks, it was seen as a very lucrative area from the point of view of profits going over to non-Indian interests.[36] Further, this virtual control of the financing of foreign trade, combined with the control over overseas shipping by non-Indian interests (which discriminated against Indian exporters and importers), was seen as the chief obstacle to the growth of Indian participation in foreign trade, leading to an annual loss to India of Rs 100 million, which represented the trading profit of the non-Indian companies.[37] The Indian capitalists were therefore very keen to establish an Indian exchange bank for both these reasons. This, however, was an area where the foreign interests were so well-entrenched that the Indian capitalists did not hope to be able to face their fierce competition on their own. They therefore urged the government to start an exchange bank,[38] which could be handed over to Indian joint-stock banks later when proper conditions existed.[39] This demand for setting up an Indian exchange bank acquired greater urgency in the 1940s, when the conditions were seen to be more "propitious". "Now is the time to press our abundance of domestic (war profits) and foreign (sterling balances) money to establish foreign connections and come into our own".[40] The decline of London as a money market for financing world trade was an added advantage.[41]

Last, insurance was another area where the Indian capitalists put up a spirited fight for restriction on foreign companies operating in India and protection to Indian companies. It was pointed out how these foreign companies dominated Indian insurance through (*a*) unfair trade practices (such as rate-cutting), (*b*) benefitting from the racial prejudice of non-Indian exchange banks, shipping companies and trading houses which discriminated against Indian companies, and (*c*) their own superior economic power, and drained out of India huge resources which were so crucial for the growth of Indian commerce and industry.[42] Since it was not

[36] "With the financing of foreign trade exclusively in the hands of (non-Indian) exchange banks the best medium for bank investment... became the monopoly of these banks". *BECR*, Vol. I, Part I, minute of dissent, para 18.

[37] *Ibid.*, para 8. This calculation was made by the Indian Chamber of Commerce (Calcutta).

[38] *Ibid.*, para 30. A variation of this demand was: "I am convinced that... an Indian exchange bank should be established with adequate assistance from government" for developing her (India's) foreign trade and for increasing the share of her own nationals in it. President, N.R. Sarkar's speech in FICCI, *AR*, 1934, p. 46.

[39] *BECR*, Vol. I, Part I, minute of dissent, para 33.

[40] *EE*, 21 January 1944, p. 83.

[41] *Ibid.*

[42] See FICCI, *AR*, 1935, pp. 89–95; and FICCI to GOI, Commerce Dept., 3 June 1935, FICCI, *Corresp.*, 1935, pp. 25–26, and pp. 29–31. Also: "Foreign insurance companies are taking away fifty per cent of the premium income from India... a drain of about 10 crores [100 million] to 12 crores [120 million]... every year." P.K. Santanam of Indian Life Assurance Offices Association, Bombay, FICCI, *AR*, 1935, pp. 89–90. On the discrimination of the exchange banks against

possible for private enterprise to handle this situation on its own, the Indian capitalists demanded that the government, as in many other countries, should legislate to protect Indian companies, introduce licensing of foreign companies, impose restrictions on them such as compulsory investment of a "major amount of the premium, related to business transacted" in India, payment of higher statutory deposits by foreign companies, and so on.[43] On this issue, J.C. Setalvad of Indian Insurance Companies Association accused the government of deliberately delaying any protective legislation as "under the new constitution it will not be possible for Indian companies to claim protection against British companies operating in India". So the alternative suggested was to "force the hands of the government" by introducing a private Bill in the legislature by "some of our representation in the Assembly".[44]

III. United Front

Though government restriction and legislation at various levels, as discussed above, was one of the most important mechanisms through which the Indian capitalist class tried to restrict the influence of foreign capital, it was by no means the only one. First, an attempt was made to organize Indian interests, through horizontal combinations, to face foreign competition. For example, in 1937 the All India Soap Makers' Association urged the linking up of "the soap factories of the different provinces into one chain of Indian soap makers..." with a common purpose to fight the competition of the "stupendous soap factories put up by foreigners under our very nose".[45]

Similarly, when efforts by some Indian banks, such as the Central Bank of India and Tata Industrial Bank, to do foreign exchange business on their own failed, *the Eastern Economist* in 1944 recommended that "a united

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Indian insurance companies, J.C. Setalvad of Indian Insurance Companies Association reportedly advised a manager of an exchange bank to put up a sign saying, "Dogs and Indian Companies' policies not accepted." FICCI, *AR*, 1935, p. 94. What is important is the clear realization by the capitalists of the strong link between and interdependence of various sectors like banking, insurance, foreign trade and shipping, all of which involved substantial foreign interests.

[43] See IICC Report, 1927, p. 16; FICCI, *AR*, 1930 and 1931, Resolution on Insurance and speeches; FICCI, *AR*, 1935, pp. 89–93; FICCI, *Corresp.*, pp. 29–31. Imposition of quotas and differential excise duties as between Indian and non-Indian concerns was suggested in other areas as well, such as matches, shoes, soap, glass, etc., where foreign interests taking advantage of protection had established themselves in India and were offering serious competition to Indian interests. See Indian Chamber of Commerce (Calcutta) to FICCI, 23 June 1935, FICCI, *Corresp.*, 1935, pp. 4–9 and 29–31.

[44] FICCI, *AR*, 1935, p. 93.

[45] FICCI, *AR*, 1937, p. 123.

effort on the part of all Indian joint stock banks... will have far greater chances of success than the isolated sporadic attempts of individual banks pitted against strongly entrenched foreign corporations". However, it was realized that if the non-Indian exchange banks made "an organised attempt to hit the Indian Exchange Bank there (was) no constructive and effective remedy except the one suggested by the minority report of the Central Banking Enquiry Committee" that the state must move into this sphere "for such a period as may be necessary to get the foreign banks to realize their correct and legitimate position in this country".[46] Again, a little later, representatives of Indian scheduled banks met in Bombay and made a move towards the formation of an "All India Association of Banks", "one major task of which (would) be to create an Indian exchange bank".[47] The Association was also to help introduce voluntary agreement on certain norms and uniform policies and to exercise the pressure of its organized opinion on legislative bodies. Interestingly, the Association was to include the Imperial Bank which, despite considerable Indian intrusion, was still dominated by foreign interests. The strength and effectiveness of the Association was certain to increase if it could carry with it this bank, the largest and most important one at that time. However, as the *Eastern Economist* warned, it was necessary to so organize the Association that the Imperial Bank would not be able to dominate it and the Indian banks would be able to pursue "bold policies" and successfully compete with other foreign banks.[48]

Second, the need for unity and organization of Indian commercial and industrial interests at a wider level was met through FICCI itself. The Federation was formed in the mid-1920s with the specific idea of uniting Indian interests to press for Indian demands with the Government of India against the organized influence of the non-Indian interests represented by various organizations.[49] It is significant that nearly two decades later, in 1945, its outgoing President should reiterate the necessity of FICCI being able to carry with it unitedly its affiliated bodies from all over the country, "as we will have to *present a united front* to safeguard the rights and interest of the commercial community and *to folster the development of Indian industries against the threatened incursions of foreign vested interests in the post-war period*".[50] Pointing out the crucial contribution of FICCI, A.D. Shroff reviewed, a year before independence, FICCI's past and future role as follows:[51]

[46] *EE*, 21 January 1944, pp. 83–84.

[47] *EE*, 23 June 1944, p. 983.

[48] *Ibid*.

[49] *Report of the 4th Session of Indian Industrial and Commercial Congress* (Calcutta), December 1926.

[50] J.C. Setalvad, FICCI, *AR*, 1945, p. 199 (emphasis mine).

[51] FICCI, *AR*, 1946, p. 58 (emphasis mine). The Federation's zealous guarding of Indian interests was not seen to have gone waste and D.P. Khaitan (one of its earliest organizers)

> Till now *the major part of the federation's activity has been to safeguard the interests of Indian trade, commerce and industry and to protect them from the inroads of non-Indian interests*. We are now passing on to a new era when we will have to take on the two-fold activities of not only interpreting to our own government the needs and requirements of Indian trade, commerce and industry but to raise this country at an early date to a level with the other countries of the world.

Last, the Indian capitalists were to utilize the weight of public opinion in a variety of ways. Its major role, of course, was to put pressure on the government both inside and outside the Legislature to force it to concede their demands for protection against foreign interests.[52] Public opinion could also be effectively utilized for the boycotting of the "black-listed" non-Indian companies, a weapon effectively used during the Civil Disobedience Movement.[53] Furthermore, pressure was often put on Indian business to patronize Indian interests.[54] "Indian concerns... can hold their own with foreign concerns provided there is no unfair competition and provided the *sense of patriotism* amongst you (Indian business) is so strong that even at a little sacrifice you will patronise your own concerns."[55] The example of an Indian client (the Birlas) insisting on a non-Indian exchange bank accepting the policy of an Indian insurance company he was dealing with was to be emulated by others.[56]

An interesting example of the pressure of the commercial public opinion in India was the resignation of Badridas Goenka (on his being elected as President of FICCI, 1945–46) "from the Board of three very good companies which, though Indian in domicile, were controlled from the UK". The reason Goenka gave for this was: "The Federation in those days was strongly opposed in principle to the creation of companies, which, while enjoying all the advantages of Indian domicile, had their controlling share interests and also control in the hands of non-Indian nationals. I felt it would be embarrasing for me to oppose the formation of such concerns while I continued to associate with them."[57]

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could now boast: "Today there is hardly any variety of industry or mining or trade or commerce in which the Indian mercantile community has no substantial interests." FICCI, *AR*, 1946, p. 56.

[52] A research sub-committee was set up by FICCI in 1939, with Purshotamdas Thakurdas as Chairman, to do research on subjects like the "Future of Foreign Capital in India", for the education of the public and the Legislature. FICCI, *Proc. of EC*, 1939.

[53] FICCI, *Proc. of EC*, 1931, p. 8 and 1930, p. 5. Also, discussion between Gandhi, Benthall, Birla, Purshotamdas and others on this issue. *Benthall Papers*, Box 11.

[54] FICCI, *Proc. of EC*, 1930, p. 5. The Indian coal interests repeatedly demanded that Indian industrialists should use coal mined by them. See, for example, FICCI, *AR*, 1933, pp. 96–98.

[55] K. Santanam (Indian Life Assurance Offices Association, Bombay), FICCI, *AR*, 1935, p. 92. The reference here is to insurance business. See also FICCI, *AR*, 1939, p. 110.

[56] J.C. Setalvad, FICCI, *AR*, 1935, p. 94.

[57] FICCI, Silver Jubilee Souvenir, 1927–51, p. 215.

IV. Right to Discriminate

The Indian capitalists' attempts to restrict foreign capital through various means, particularly through legislation, produced a not unexpected backlash from foreign, mainly British interests, who began to agitate against "the monstrous" and "outrageous" attempts to "expropriate" foreign interests through "racial discrimination".[58] The demand for constitutional safeguards for non-Indian interests began to come up with the Simon Commission commencing its deliberations for drawing up a new constitution for India.

The Indian capitalists were quick to react to this threat and unequivocally made it clear that India had a *right to discriminate* against foreign enterprise to protect and encourage her own trade and industry. In 1929, the executive committee of FICCI resolved that "there could be no self-government in India if she was to be denied the power to devise and follow a national economic policy including the right, if her interests required it, of making economic discrimination against non-national interests".[59] The representatives of the Indian capitalists argued this view in the Round Table Conferences,[60] and the White Paper proposals were roundly condemned for the safeguards clauses introduced in them. The President of FICCI, Walchand Hirachand, sharply attacking those who agreed to the clauses, said: "I would like to put a straight question to those who have agreed to the discriminatory clauses as price of peace or as a matter of expediency, whether they had a right to sacrifice a nation's birth-right even if the attainment of the full scope of this right may have appeared very difficult or even impossible to them."[61]

The Government of India Bill (1935) was described by FICCI as "more reactionary than the white paper scheme...postulat(ing) numerous safeguards in the interests of British trade and industry which cut at the very root of fiscal autonomy and (was) a direct impediment in the way of national trade (and) indigenous industries apart from their degrading character which no self-respecting nation (could) accept".[62] The Federation, in a long communication to the Viceroy giving its opinion on the clauses relating to safeguards and commercial discrimination in the Government of India Act (1935), further pointed out that the commercial safeguards,

[58] Inchcape to Birkindhead, 16 October 1928, *E&O Dept.*, L/E/9/865, IOR, London. Inchcape's 34-page letter makes very interesting reading as to how "outraged" the British interests felt, particularly with Walchand's attempts to "expropriate" them. See also FICCI, *AR*, 1928.

[59] FICCI, *Proc. of EC*, 1929, p. 7; and FICCI, *AR*, 1930, p. 150.

[60] FICCI, *AR*, 1932, p. 3.

[61] FICCI, *AR*, 1933, pp. 12–13.

[62] Unanimous resolution passed by FICCI, FICCI, *AR*, 1935, pp. 20–21.

"designed to safeguard not only existing British vested interests but also future British vested interests", were a "handicap to the economic swaraj.... In fact the political swaraj (would) be an empty husk without the economic swaraj which should be deemed a condition precedent."[63]

The principle of reciprocity incorporated in the 1935 Act (that British interests will not be subject to any disability which Indian interests are not subject to in the UK), made much of by the British, was declared to be deceptive and valueless for two reasons. First, there was "hardly any reciprocal advantage to India as the number of Indian concerns operating at present in the United Kingdom (was) negligible compared to the large number of British concerns operating in India dominating...the export and import trade, coastal and overseas shipping, banking and insurance, tea, jute and coal industries...crushing many indigenous enterprises".[64] Besides, there was the question of relative strength—there could be no reciprocity between a "giant and a dwarf".[65] "Which Indian firm", asked Manu Subedar, "wants to go to UK and do banking business there or establish electric lighting and power installations...where is the scope in the UK for Indian enterprise?" He went on to say that if Walchand could assure him that "he shall be in a position to take our ships and do country trade in the UK", then there could be talk of reciprocity.[66]

Second, in this clause, the initiative to discriminate was with the British, i.e., "even if we face competition, rate-cutting, etc., we cannot do anything so long as Britain keeps its door open for any like Indian enterprise to function there. But if Britain finds any Indian enterprise in Britain contrary to its interest it could withdraw freedom for this enterprise to function there... and India could do likewise for that British item in India...."[67] Therefore, it was argued that if reciprocity was to have any meaning, "the right of initiative (of) discriminating legislation (should) rest with the Government of India", i.e., as N.R. Sarkar put it, the principle should be that Indian interests can be put to the same disability in Britain as the British are put to in India.[68]

Finally, it was pointed out that the British government at home even now gave preferential treatment to British capital in key industries and put restrictions on foreign capital.[69] "If Great Britain after 100 years of industrialization considers such safeguards necessary to protect national interests

[63] FICCI to Viceroy, 30 July 1938, *E&O Dept.*, L/E/9/1150, IOR, London.

[64] *Ibid.*

[65] This phrase was used by Gandhiji, FICCI, *AR*, 1939, p. 106.

[66] FICCI, *AR*, 1935, pp. 33–36.

[67] FICCI, *AR*, 1935, p. 36; and FICCI to Viceroy, 30 July 1938, *E&O Dept.*, L/E/9/1150, IOR, London.

[68] *Ibid.*; and FICCI, *AR*, 1933, pp. 111–13.

[69] FICCI, *Corresp.*, 1938, p. 148.

it is inconceivable how the same people should have brought about fetters restricting India's right to adopt similar measures in Indian interests."[70]

In the 1940s, this issue of safeguards came up again when the deliberations began for the next stage of constitutional development. The Secretary of State's assurance in July 1942, repeated by Cripps on his mission to India, that "a guarantee of special protection for British commercial interests in India would not be a condition for the acceptance of whatever constitution India might evolve" (probably an assurance given to assuage Indian interests in the disturbed conditions of the war), produced a strong reaction among British commercial interests both in India and England, who began to agitate for "constitutional safeguards and special protection, in the future constitution of India".[71] The appointment of E.C. Benthall (of Bird & Co.), an important leader of the European group, on the Viceroy's executive council with the crucial portfolio of transport was seen by the Indian capitalists as a "retrograde" step giving a concession to "the British commercial vested interests", and most objectionably introducing the principle of "recognition of the British community in India as a minority ...deserving separate consideration, and towards which the British government (had) some special obligations."[72]

Far from accepting any fresh safeguards in the future constitution, which would make independence an "empty husk", the Indian capitalists, planning at this time to rapidly develop their own base and at the same time faced with the increasing inflow of foreign capital through the so-called "India Ltds." (see Section V), demanded an immediate abrogation of the existing safeguards.[73] The issue was not to be postponed till the "final political settlement between India and Britain, which (could) take years to come" whereas "economic planning (had) become urgent",[74] if India's "national planning ambitions (were) not to go awry by long-term mortgages to foreign interests".[75] There was also to be no question of any interim arrangement until freedom was achieved. As G.L. Mehta put it: "these safeguards should be abolished and rendered nugatory and only when there is a free government in India, that government might negotiate whatever agreement is necessary between Britain and India".[76]

[70] FICCI, *AR*, 1939, p. 106.

[71] FICCI, *AR*, pp. 153 and 157.

[72] G.L. Mehta and P.T. in FICCI, *AR*, 1943, pp. 7 and 153–54.

[73] Manu Subedar moved a resolution to this effect in the Central Legislative Assembly. See *EE*, 9 March 1945, pp. 281–82; and FICCI, *AR*, 1945, p. 118.

[74] *EE*, 9 March 1945, pp. 281–82.

[75] *EE*, 23 February 1945, p. 224. Pressure was constantly put on the Planning Member, A.R. Dalal (a Tata Director) to take immediate action in this matter.

[76] FICCI, *AR*, 1945, p. 118. When A.R. Dalal's attempts, in a special mission to the UK, to get an immediate repeal of the safeguards failed (*EE*, 24 August 1945, p. 265), the moral drawn was that "an early political settlement" was necessary as a precondition to any national economic planning. *EE*, 12 October 1945, p. 545.

This demand for the right to protect Indian interests and discriminate against foreign capital was not directed against British capital alone. In the post-war years when international bodies such as the International Conference on Trade and Employment (ICTE) and the International Trade Organization, etc., were trying to lay down policy for the post-war capitalist world, the Indian capitalists quite strongly maintained that the advanced countries like the USA and UK, which had resorted to numerous restrictions and protective measures in the past, now wanted to liberalize world trade to their advantage by imposing a sort of "open-door" policy on the rest of the world. This, they said, was unacceptable to the underdeveloped countries which, because of their very backwardness, needed special measures such as protection against foreign capital.[77] To the US proposal that foreign investments, both existing and future, should be assured equitable treatment, the Indian capitalists replied that such an assurance could not be given to existing investments as they were "forced upon the colonial possessions"; but so far as future investments were concerned, if they were made on *mutually agreed terms*, equitable treatment could be considered.[78]

V. The War Years: India Ltds

The major attempt of the Indian capitalists class in this period was to ensure that the industrial growth possible during the war, as well as its post-war sustenance, were not jeopardized by the intrusion of foreign capital.

First, the Indian capitalists repeatedly made it clear that the war industries to be developed (such as, inter alia, automobiles, ships, locomotives, aircrafts, heavy chemicals, etc.) should be under Indian ownership, management and control. "It was emphasized that any attempt to let in foreign capital under the guise of war effort to organise the key industries...would be a matter of bitter public criticism".[79] It was in this context that the Indian capitalists were severely critical of the Roger Mission, the European Group Conference and the American Technical/Economic Mission, etc., which were seen as either attempts to develop war industries in India under foreign control (e.g., the US proposal to set up an automobile plant in India) or as efforts to prevent the growth of war industries in India on the plea that other countries were better equipped to produce these complex capital goods and that it would be uneconomical for India to now enter these

[77] See Chapter 9, Section VII.

[78] ICTE, A note on some of the important clauses of the Geneva Draft, FICCI, *Corresp.*, 1947, pp. 54–55.

[79] FICCI, *Proc. of EC*, 1940, p. 36.

fields (an argument put forward by Australia, UK, etc.). Both the options were totally unacceptable to the Indian capitalists.[80]

Furthermore, as Sir Shri Ram pointed out, if Americans were allowed to establish factories in India, it would be difficult to oust them by Indian or even British competition, and they would become "more dangerous than the vested interests of today". Therefore, it was necessary to get an "undertaking" from these concerns that "if not now then certainly after the war these would be handed over to either the government or Indian industrialists".[81]

Second, the Indian capitalists were conscious that the war provided a unique opportunity to Indian capital due to the increased war demand and, more important, the "loosening of the links" with the metropolis, reflected in decreased foreign imports and restricted entry of foreign capital, and certain other special circumstances.[82] Not only was the opportunity to be fully utilized to consolidate the position of Indian capital to enable it to face foreign competition after the war, but the government was asked for an assurance that new industries, particularly key industries started during the war, would be protected for a reasonable period after the war.[83] This was necessary if the gains made during the war were not to be frittered away as happened after the first war.

It was on both these counts (growth during the war and its sustenance after the war) that the Indian capitalists were greatly alarmed by the "growing menace" of India Ltds. There were reportedly already 150 such companies by 1939 and as many as another 108 companies had come up in the five years ending in 1943–44.[84] It was said that these companies were essentially branches of large foreign corporations who, in order to take advantage of the local cheap labour and to get behind the tariff walls and capture the market of India and its neighbouring countries, were floating these rupee companies, registering them in India, sometimes allowing some Indian capital participation and a few Indian directors, but retaining complete control over them.[85] The "national character of the progress

[80] See FICCI, *Proc. of EC*, 1940, pp. 32–35; FICCI, *AR*, 1941, pp. 87–88; *AR*, 1942, pp. 71–72; Sri Ram, G.L. Mehta and G.D. Birla on American Mission, FICCI, *AR*, 1942, pp. 65–68, 204–6, 238–39 and 240–42. Also see Chapter 9, Section VI.

[81] FICCI, *AR*, 1942, p. 66. If handed over to the government such concerns were to be eventually transferred to private Indian interests. FICCI, *AR*, 1941, pp. 104–5.

[82] President C.S.R. Mudaliar's speech, FICCI, *AR*, 1940, pp. 12–13.

[83] *Ibid*. This protection was not to be tariff protection only but "protection from non-Indian industries established in this country". FICCI, *AR*, 1944, p. 121.

[84] FICCI, *AR*, 1939, p. 12; and *The Hindustan Times*, 25 April 1945.

[85] See, for example, A.D. Shroff in *Amrita Bazar Patrika*, 1 June 1945, J.R.D. Tata quoted in Master's speech as President of IMC, 26 April 1945; *WH Papers*, fl. of LH, No. 143, pt. I; G.D. Khanolkar, *Walchand Hirachand*, Bombay, 1969, p. 291. It must be noted here that the phenomenon of non-Indian companies entering behind tariff walls and through their superior position monopolizing various areas and ousting Indian capital was felt and criticized much earlier, Fiscal Commission, minute of dissent, 1921–22, noted this, some examples being in

made during the war", it was believed, was being "considerably nullified" by these companies[86] "dumping foreign industries instead of foreign goods" on India.[87] The obvious superiority of these companies in terms of wealth, scientific knowledge, trained personnel, research facilities, etc., was recognized by the Indian capitalists who felt that the "growth of such foreign controlled interests was a serious threat to India's industrial progress" as "nascent industries under Indian control, with Indian capital, had no protection against foreign established companies and would be beaten down in competition with such companies".[88]

The demand was therefore for protection for national interests, particularly "in the context of the huge industrial drive (planned) after the war".[89] "A policy which lets foreign enterprise operate unregulated" in such a situation, it was believed, could "only prove to be an unmitigated calamity".[90]

As early as 1939, the Federation recommended that:[91]

> in order to safeguard Indian interests against a situation arising from foreign interests establishing industries behind a tariff wall...no company should be allowed to be registered in India unless (*a*) it has rupee capital, (*b*) at least two-thirds of shareholding is restricted to Indian nationals and (*c*) at least two-thirds of the dominant control and effective voice in the management should be in Indian hands...and that *in case of key industries, the entire capital and management should be restricted to Indians only.*

By 1944 the *Eastern Economist*, expressing the Indian capitalists' confidence due to the large war accumulations made by them, claimed that conditions had changed since the days of the Fiscal Commission (1921) and the External Capital Committee (1925) and therefore even their minority reports were out of date. They assumed at that time "the desirability of

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matches (Swedish monopoly), tobacco (Imperial Tobacco), shoes (Bata), soap (Lever Bros.), etc. Indian Chamber of Commerce (Calcutta) to FICCI, 22 June 1935, FICCI, *Corresp.*, 1935, pp. 4–9. Only now the problem was seen as greatly enhanced, not only because more foreign companies were coming in but because now Indian capital wanted to move into many new areas, where the threat of foreign capital was sharply felt.

[86] *EE*, 15 December 1944, p. 653.

[87] Views expressed by S. Morarjee, G.L. Mehta and M.A. Master to Gandhi, quoted in Khanolkar *Walchand Hirachand*, pp. 292–93.

[88] J.R.D. Tata's views as member of Industrial Policy Committee appointed by the government in 1944, in *The Hindu*, 31 October 1944. See also Tata quoted in Master's speech, 26 April 1945, *WH Papers*, fl. of LH, No. 143, pt. 1.

[89] *EE*, 15 December 1944, p. 658. "Industrialisation of India can only mean development of industries owned, controlled and managed by the nationals of the country." Master's speech, 26 April 1945, *WH Papers*, fl. of LH, No. 143, pt. 1.

[90] *Ibid.*

[91] Unanimous resolution passed by FICCI, *AR*, 1939, p. 101.

importing foreign capital as an aid to rapid industrialisation", but today India "is only dependent on foreign technical help and not on financial assistance" and therefore the restrictions on foreign investments should be much more stringent.[92] It was accordingly suggested by the *Eastern Economist* that all private investment was to be reserved for Indian capital, and even where there was state ownership, "internal capital should have priority over external capital".[93] Other demands such as that tariff protection should be given only to Indian-owned and -managed firms and that licences should be given only to Indian concerns, etc., also began to be made.[94]

In fact one of the major grounds for the Indian capitalists' criticism of the government plan (1945) was the way it ignored the problem of foreign capital in general and the India Ltds. in particular. In a press communique, the President of FICCI, Badridas Goenka, said: "The statement of industrial policy is however surprisingly silent in regard to the important problem of safeguarding Indian industries also from internal competition of non-Indian interests. There is no assurance on the part of the government that they will not permit foreign interests from establishing themselves in India behind tariff walls to compete unfairly with or even destroy Indian industries."[95] Rejecting the government plea that protection was not possible due to the provisions of constitutional safeguards in the 1935 Act,[96] the Indian capitalists, as we saw earlier, demanded an immediate, "absolute and unconditional abrogation of the commercial safeguards".[97]

VI. Role of the State

Let us now see more specifically what was to be the role of the state in the Indian capitalist class's overall strategy of rapid industrialization in India

[92] *EE*, 15 December 1944, pp. 653–55. It was also argued that since the External Capital Committee met, a lot of foreign companies had established themselves in India as India Ltds and the public had "come to realise the harmful effects of such a move" and had demanded restrictions on such companies. But "since the central government continues to be controlled by the representatives of the British vested interests nothing is done to protect Indian industries." FICCI, *AR*, 1939, p. 104.

[93] 15 December 1944, pp. 653–55.

[94] Indian Chamber of Commerce (Calcutta) to GOI, Planning and Development Department, 12 May 1945, *WH Papers*, fl. of LH, No. 143, Pt. II. Also "In the opinion of the Committee a necessary safeguard against the encroachment of non-Indian interests in the plan of establishment of industries, particularly key and basic industries, is to lay down a *statutory prohibition against… non-Indian ownership, management and control* of any" such industries. President of FICCI, Badridas Goenka, Press Statement of 28 April 1945, FICCI, *Corresp.*, 1945, p. 128 (emphasis mine).

[95] FICCI, *Corresp.*, 1945, p. 126; and *WH Papers*, fl. of LH, No. 143, pt. I.

[96] Master's speech, 26 April 1945, *WH Papers*, fl. of LH, No. 143, pt. I; Devkaran Nanjee in *Bombay Chronicle*, 24 April 1945.

[97] Walchand Hirachand, 2 May 1945, *WH Papers*, fl. of LH, No. 143, pt. I.

without succumbing to the domination of foreign capital. Here I will primarily discuss the state's role through direct participation in the economic process as opposed to its indirect intervention through a discriminating use of its legislative powers to restrict foreign capital or reserve areas for Indian capital, as discussed in the earlier section.

The capitalists saw the lack of the development of basic industries in India as an important cause of dependence on foreign capital. As the Bombay Plan put it: "till these industries are developed, we shall naturally be at the mercy of foreign countries."[98] The capitalists therefore urged that "to shorten this period of dependence it is necessary to give priority to basic industries over other industries".[99] "It will have the effect of ultimately reducing our dependence on foreign countries for the plant and machinery required by us and, consequently, of reducing our requirement of external finance."[100]

However, the Indian capitalist class, given its capital resources at that point of time, was clearly unable to develop these basic industries on its own. This is where the role of the national state was envisaged in a big way.[101] I have tried to show elsewhere[102] that the Indian capitalists visualized that the state would come to their aid here by (*a*) mobilizing surplus resources and channelizing them fruitfully into the private Indian sector through state-owned or -controlled institutions (such as investment corporations, insurance companies etc.),[103] (*b*) utilizing the inherent credit of the state through deficit financing, and finally (*c*) undertaking certain key and heavy industries under state ownership or control, provided Indian private enterprise was unable to move into these spheres itself.[104] The Indian

[98] *A Plan of Economic Development for India*, pt. I and pt. II, Penguin, 1944–45, popularly known as the Birla–Tata or the *Bombay Plan*. The authors were Purshotamdas Thakurdas, J.R.D. Tata, G.D. Birla, A.R. Dalal, Sri Ram, Kasturbhai Lalbhai, A.D. Shroff and John Mathai (*Bombay Plan*), p. 58.

[99] *Ibid.*

[100] *Ibid.*, p. 10.

[101] I have shown in Chapter 11 that the precondition the Indian capitalists set to any direct participation by the state in economic matters was to be that it was an independent state, or (earlier) at least a state responsible to the people.

[102] See Chapter 11.

[103] For example, it was said, "private enterprise... should be helped with loans of capital by the Industrial Investment Corporations... to be set up by the Government". Indian Chamber of Commerce (Cal.) to GOI, P&D Dept., 12 May 1945, *WH Papers*, fl. of LH, No. 143, pt. II, Or, A.D. Shroff's and J.K. Mehta's proposal that, "an Industrial Development Fund should be constituted by... every provisional government to the extent of 1% of their total revenue, and this fund should be utilised partly for direct financial assistance that may be rendered to industrial companies and partly to guarantee interests on capital issued by industrial companies". NPC series, *Report of Sub-Committee on Industrial Finance*, p. 75. A similar demand for a government-financed Industrial Bank was made by Manu Subedar in 1931. *BECR*, Minority Report, Vol. I, pt. II.

[104] The capitalists of course preferred private Indian enterprise with state assistance to the state sector, but the latter was generally seen as a better alternative to foreign enterprise,

capitalists clearly preferred to depend on the state to undertake directly or finance the basic infrastructural investment, the only other alternative being dependence on foreign capital. Lastly, they were aware that in spite of state participation and help some amount of foreign capital might still be required, but here again the role of the state in helping to absorb it without allowing foreign domination was to be crucial, as we will see later.

State ownership or nationalization was to operate at two other levels. First, to enter new areas where the Indian capitalist class was itself unable to make any headway because of foreign competition and the large resources required, and second, to take over certain existing key sectors where foreign capital dominated. An example of the former kind was the demand for a state exchange bank, referred to earlier. It was said that "to deal with the circumstances and atmosphere created by the monopoly of the foreign exchange banks, we see no constructive and effective remedy except the full resources and prestige of the state being brought in, not only at the start but for such period as may be necessary to get the foreign banks to realise their correct and legitimate position in the country".[105] More or less on the same reasoning the Indian capitalists emphasized their preference for government ownership in place of the entry of foreign capital in new areas such as the fertilizer industry,[106] oil,[107] etc.

As for the nationalization of key sectors where foreign capital dominated, for example, in the case of the railways, the Indian capitalists consistently demanded that the state should buy up the foreign company-owned railways (and take over the management of state-owned but company-managed railways) whose contracts had come or were about to come to an end, and under no circumstances agree to an extension of their

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except when private enterprise itself was threatened by too rapid a growth of the state sector. See Mukherjee, "Indian Capitalist Class and Congress on National Planning and Public Sector, 1930–47", Vol. 13.35, 1978, pp. 1516–528; *EPW*, and Chapter 11.

[105] *BECR*, Vol. I, Part II, para 44, minute of dissent. The dissenters recognized that such a demand would not encourage Indian joint stock banks to take the field (as pointed out by Manu Subedar in his separate minority report), but given the strength of the foreign banks and their capacity and readiness to "give fight" Manu Subedar was asked to realize that, "the spade work in this connection (could) only be done in the shortest period possible by an organisation suitably equipped to occupy a unique and privileged position both in India and abroad". *Ibid.*, paras 44 and 33. In other words a short-term sacrifice of Indian private capital's interests was seen to be necessary for the larger interest of making a dent in the foreign monopoly. In any case the provision for the state eventually handing back the exchange bank to Indian private banks was already made in the minute.

[106] The fear here (in fertilizers) was of ICI being allowed to come in. FICCI, *AR*, 1936, p. 107. In the 1940s when the government proposed to start the industry under state ownership a definite assurance was demanded that if and when it was handed over to private enterprise it should go only to fully Indian-owned, controlled and managed companies, FICCI to GOI, Dept. of Supply, 8 July 1944, FICCI, *Corresp.*, 1944, pp. 86–88.

[107] FICCI to GOI, Dept. of Labour, 21 May 1945, FICCI, *Corresp.*, 1945, pp. 120–23. See also FICCI, *AR*, 1939, p. 21 for government intervention in Airways.

contracts.[108] Similarly, a FICCI press statement welcomed the takeover of certain telephone companies, as such a step would be consistent with the demand "put forward by the commercial community that public utility companies should be owned and controlled by the state".[109] Here too, however, nationalization was not to cover areas where Indians had large interests.[110]

However, one thing about which the Indian capitalist class was very clear from the beginning was that no nationalization or intensification of government control was desirable under the existing foreign government.[111] The precondition to any "programme... which would involve measures of control or nationalisation of industries whether existing or new" was a "national government representative of and responsible to the people at the centre and in the provinces".[112] A plan of nationalization or government control in 1945 (as envisaged by the Government Plan), given the "vicious political base of the present government", would be "rightly suspect" and could be "interpreted... (only) as reservation for foreign enterprise, technical and financial".[113] Even in 1931, when the Indian capitalists asked for a state exchange bank, the demand was covered by the proviso that the "fundamental base of making our recommendations

[108] A FICCI resolution in 1937 criticized the secretary of state for not exercising the option of purchasing two company (foreign) managed railways, and urged the legislature to put pressure on the government to acquire the high dividend yielding railways, if necessary by borrowing (at much lower rates of interest) and thus still making it a highly profitable proposition. FICCI, *AR*, 1937, pp. 83 and 86–87. In 1942 it was argued that since now the financial position was greatly improved, given the accumulation of sterling balances by India, there was no excuse for missing the opportunity to acquire the foreign railway companies. FICCI, *Proc. of EC*, 1942. For further information on this question, see FICCI, *AR*, 1936, p. 79; FICCI, *Corresp.*, 1940, p. 310; FICCI, *AR*, 1941, pp. 16–17 and 62–68, etc.

[109] FICCI, *Proc. of EC*, 1940, p. 62.

[110] J.J. Kapadia (Native share and stock broker's association, Bombay), referring to the above press statement, demanded of the FICCI President an assurance that this definition of public utility did not cover electrical undertakings, and the President gave such an assurance. FICCI, *AR*, 1941, p. 27. Indian interests (Tatas particularly) had large interests in electrical undertakings.

[111] See Chapter 11 for a detailed elaboration of this point.

[112] Press Communique by Badridas Goenka, FICCI President, FICCI, *Corresp.*, 1945, p. 125. For example, the Indian capitalists who otherwise urged the need for the government mobilizing resources through state-owned investment bodies, expressed its grave doubts about the utility of an Industrial Finance Corporation proposed to be set up by the existing government. Similarly, a proposal to form a National Investment Board to canalize investment was strongly opposed as it would only hinder industrial growth as did the control of capital investment, introduced by the present government. Statement to Press by FICCI, 4 March 1946, FICCI, *Corresp.*, 1946.

[113] *EE*, 15 December 1944, p. 655. Also: "Under existing conditions, nationalisation means distribution of posts and services and even contracts and tenders, not always on considerations of efficiency but on other extraneous considerations." G.L. Mehta, FICCI, *AR*, 1945, p. 120.

should be that the administration of the provinces and the central government should be in the hands of ministers fully responsible to the respective legislatures".[114]

VII. Repatriation

Before going on to discuss the shift in the Indian capitalist class's attitude towards incoming foreign capital in the mid-1940s, let us consider the nature of the change in their attitude towards existing capital, particularly on the issue of repatriation.

It has been argued that, "the Indian capitalists *did not fight for the expulsion of the existing foreign capital*, given the relatively small size of the existing foreign capital and the fact that only a small part of it was linked directly with British monopoly capital at home, and given the withdrawal of patronage by the colonial state, they felt strong enough to compete with it on equal terms".[115]

It seems to us that the situation was somewhat different. First, the Indian capitalists did demand expulsion of existing foreign capital. The National Planning Committee Report, basing itself on a draft by John Mathai, recommended: "it is essential that foreign interests which now exercise a predominant control over certain vital industries in India, particularly those involving the utilisation of scarce national resources, should be acquired by the state...."[116] The Federation also "reiterated" its demand in 1944 that "India's accumulated sterling credits should in the first instance be utilised to repatriate British commercial investments in India".[117] In fact the Indian capitalists consistently made it clear that they did not want the sterling balances (earned at much cost during the war) to be frittered away through currency manipulations as occurred during the First World War,[118] but to be utilized for repatriating British investments in India, beginning with the high dividend yielding commercial investments in jute, rubber, oil, semi-government investments in railways, post-trusts, etc., followed by the lesser paying sterling debt accumulated by the government. The rest of the sterling balances were to be used for buying

[114] *BECR*, Vol. I, pt. I, Minute of Dissent, para 49.

[115] See Chandra, "The Indian Capitalist Class", emphasis mine.

[116] Mathai (an eminent economist and Tata employee) in proceedings of 6th Session of NPC, September 1945, *NPCR*, 1949, Bombay, pp. 233 and 237. We have seen earlier similar demands in the case of railways, public utilities, oil, etc.

[117] Resolution moved in Annual Meeting, FICCI, *AR*, 1944, pp. 23–24. The total sterling balances that India had accumulated as credit against Britain for goods supplied and other expenditure made during the war amounted to Rs 16,010 million in April 1947. Statement of Sterling Balances of Reserve Bank, *PT Papers*, fl. 381.

[118] FICCI, *AR*, 1940, pp. 10–11; and *AR*, 1943, p. 17.

capital equipment, building up gold and dollar reserves and so on.[119] Considering that the sterling balances were considered a very significant source of financing post-war development, fulfilling a substantial part of the requirement of capital goods imports,[120] it is noteworthy that the Indian capitalists thought it important enough to want to utilize part of these balances in acquiring existing foreign concerns.

Second, the Indian capitalists felt insecure regarding foreign investments in India because of the patronage foreign capital received from the colonial state. As we have seen above, throughout the 1940s, a barrage of criticism appeared of the government plan and general government policy, which, it was said, was not only not putting enough restrictions on foreign capital but was in fact giving it opportunities to grow under the cover of protection, or under the guise of the war effort.

Finally, while it is true that traditionally in India only a "small part of (the foreign capital) was linked directly with British monopoly capital at home", the trend was altering in the 1930s and 1940s. It was precisely the fact that an increasing amount of the foreign investment that was now taking place in the form of the "India Ltds." or otherwise was linked directly to large foreign corporations (such as ICI, Lever Bros., Swedish Match Company, Bata, Burmah Shell, Imperial Tobacco, Imperial Airways, etc.) that worried the capitalist class in India.[121]

Thus, at least on these grounds there does not seem to be any reason why the capitalist class should feel securer vis-à-vis even existing foreign capital and be ready "to compete with it on equal terms".

However, there were other reasons why as the war drew to a close the opinion began to be sounded that, rather than utilizing all the sterling balances in repatriating foreign investments, it would be better to use a substantial part of it to build up Indian industries as rapidly as possible. The *Eastern Economist*, for example, emphasized that "even at the cost of being dubbed reactionary and ally of foreign capital for suggesting the use of sterling balances for long term reconstruction as opposed to for buying up British investments... we would venture to repeat that 250 crores [2,500 million] is all that should be allotted for this end (i.e., repatriation), leaving about 1000 crores [10,000 million] for economic development".[122]

[119] See, for example, FICCI, *Proc. of EC*, 1939, p. 7; *AR*, 1942, pp. 12–14; FICCI to GOI, Finance Dept., 14 January 1943, FICCI, *Corresp.*, 1943, pp. 362–63; FICCI, *AR*, 1943, pp. 41–42; A.D. Shroff in NPCR, pp. 233–35; and *EE*, 17 January 1947.

[120] In fact the Bombay Plan envisaged that nearly 38 per cent of the plan requirements of external finance would be met by the sterling balances: *Bombay Plan*, pp. 52 and 55. See also FICCI, *AR*, 1942, p. 115, and *AR*, 1943, pp. 52 and 17–20, etc.

[121] *EE*, 15 December 1944, pp. 653–55; and FICCI, *Corresp.*, 1935, pp. 4–9.

[122] *EE*, 17 January 1947, pp. 7–8. The journal believed that if the prices of acquisition were equitably fixed, 2500 million could buy a good proportion—exceeding one-half—of the foreign investments.

The reasons for this modified, by no means unanimous, attitude towards repatriation[123] was, first, because of *the confidence inspired by the imminent national state*. Arguing against the "strict attitude" adopted in the National Planning Committee's recommendations (September 1945)[124] of asking for the acquisition by the state of British investments in crucial areas, the *Eastern Economist* said that if India achieved full independence and consequently the commercial safeguards were withdrawn, and the nascent indigenous interests could be given protection and assistance, and further, if India embarked on planned development where direct foreign investment would form only a small fraction of that investment, then there was nothing to fear from foreign enterprise in India.[125]

Second, it was precisely this last condition that there would be planned development, where the "industrial expansion in India (would be) done predominantly under Indian ownership and control...and on a sufficiently large scale",[126] so that "as economic development proceed(ed) existing foreign investments would constitute a steadily dwindling share in (the) national economy",[127] that made relative non-interference with existing European interests permissible. It was argued that rather than

[123] "Mr. (Manu) Subedar, is one of those who have been advocating for a long time, the taking over of British commercial investments with a view to reducing the sterling balances. The explanation that such a step will not in any way add to the existing productive capacity of the country... does not seem to impress the critics of his type of thinking." *Financial Times*, 16 July 1948. The *Eastern Economist* also admitted that the "weight of Indian opinion, popular as well as commercial (was) largely on the side of taking over (foreign) assets". 17 January 1947. In any case even the *Eastern Economist* fully defended India's right to acquire British assets, but it only questioned the advisability of utilizing the entire resources for that purpose.

[124] NPCR, p. 237. The National Planning Committee (NPC) was formed by the Congress, nurtured by Nehru and dominated by left nationalists, though capitalists of all hues were represented in it.

[125] *EE*, 23 November 1945, pp. 748–49. Significantly, in December 1946, it was Nehru and not the Viceroy who was invited to give the opening speech at the Associated Chambers, the most important association of European interests in India, where he clarified, amongst other things, that the safeguards, monopoly and privileges enjoyed by the European interests in the past would go. This was interpreted as an "indicator that...(the) rule of Clive Street (was) over... Nehru (being) called in to read the requiem to (the) now commoner mortals of (the) once great British empire,...to effect (their) transition from masters to servants of the people." *EE*, 20 December 1946, p. 991. The Indian capitalists felt a new confidence. I have, in Chapter 11 outlined the emerging of a working relationship between the capitalist class and the Congress (including its left wing) which was by now certain to lead the imminent national government. Among other things it was clear that the capitalists could count on the Congress (particularly its left wing) to try to severely limit the influence of foreign capital in India. In fact, at times, sections of the Indian capitalist class had to try to moderate the blind Congress hostility to foreign capital when they believed it could be done to India's advantage without succumbing to foreign domination. More on this later.

[126] *EE*, 13 April 1945, p. 457.

[127] *EE*, 23 November 1945, pp. 748–49. So it was probably not so much the "small size of the existing capital" but the hope of its "dwindling share" in the future which explains the new stance.

wasting resources "merely for a financial operation" (i.e., transfer of assets from British to Indian hands), it was preferable to use them to "build up" the economic base, so that Indian industry could then over time "compete with foreign owned or managed concerns on an equal basis".[128] Thus, by utilizing the resources (sterling balances) for Indian development, rather than for repatriation, the objective of reducing dependence on foreign capital would be achieved in two ways: first, larger growth of Indian capital reducing the share of existing foreign capital in total capital, and, second, the development of the Indian economic base which would reduce dependence on future foreign investments, as well as make it possible for Indian capital to compete with foreign capital.

In this context, another reason offered for not utilizing the sterling balances for repatriation was the inflated prices at which the transfers were taking place[129]—the real value received for the resources utilized was thus considerably reduced. The *Eastern Economist* pointed out: "it is indubitably a loss to the country in terms of the avoidable excess paid out of the sterling balances...except in so far as the British sellers (did) not choose to transfer their sales proceeds out of India".[130] It was suggested therefore that there should be a limit fixed on the extent of such transfers, the prices at which such transfers took place should be regulated and "there should be a prohibition on the transfer of proceeds of the sales out of India if not on the transfer of the assets themselves".[131]

Last, given the tremendous shortage of capital equipment which had to be imported for embarking on the path of rapid industrial development (see the next section), given the heavy dependence on the sterling balances (virtually the only certain source of foreign exchange at that time)[132] to finance these imports, and, further, given the uncertainty about Britain agreeing to release the balances fully and in a short period of time,[133] it was felt, as pointed out earlier, that these resources ought to be utilized very

[128] *Ibid.*

[129] An increasing part of these transfers close to independence were through Indians buying up British undertakings at very high and inflated prices, e.g., the controlling interests of Swadeshi Cotton Mills (Cawnpore) were brought by R.P. Bagla (Jaipurias) for Rs 43 million, paying Rs 2,500 per share of Rs 100 held by British owners. *EE*, 17 May 1946, p. 832, and FICCI, *AR*, 1947, p. 39.

[130] *EE*, 17 January 1947, pp. 7–8; and Lalji Mehrotra, FICCI, *AR*, 1947, p. 39.

[131] *EE*, 17 January 1947, pp. 7–8.

[132] As A.D. Shroff put it: "let us not forget that situated as we are today the sterling balances are practically our entire foreign exchange resources for the country...therefore (it is our)... sacred duty...(to) make a very wise use of these sterling balances... to get us those badly needed capital goods to build up our industrial equipment." FICCI, *AR*, 1947, pp. 35–36.

[133] The bitter tussle between Britain and India on the issue of the sterling balances, with the Indian capitalists understandably playing a very prominent part in it, started almost as soon as the balances began to become very large, and went on for a number of years after independence. See Chapter 5.

carefully to finance as much capital imports as possible rather than to buy out existing foreign investments, and that too at inflated prices.

As we shall see, the reasons for the Indian capitalists' "softening" on the issue of repatriation were on many counts very similar to the reasons for their "softening" on the issue of the inflow of foreign capital.

VIII. Inflow of Foreign Capital

VIIIa. Capital Equipment and Technology

As early as the 1920s, the Indian capitalists contested the British view that India needed foreign capital because there was a lack of indigenous capital, which was said to be "shy" and which allegedly preferred to go into hoarding rather than risk industrial investment. It was consistently pointed out (in the 1920s and 1930s) that there was enough indigenous capital in India which could not come out and enter industry because of the "risks involved in establishing new industries" in the absence of any protection or a positive industrial policy.[134] This, it was said, was amply "proved by the industrial activity which resulted from the indirect protection afforded by war conditions",[135] or (as later) by the rapidity with which Indian capital moved into protected areas such as sugar.[136] Foreign capital, it was said in 1921, may have been necessary "merely to supplement (indigenous capital and) to accelerate the pace "of industrial development".[137] In 1932, however, the President of FICCI, Walchand Hirachand, somewhat carried away, asserted "that India would not require foreign capital if the administration was placed in the hands of the best of her nationals", i.e., if India was "allowed to develop on right national lines". Then, given her huge resources, she would "present a picture of industrialisation unknown in the annals of industrial development of the world and that too with the help of purely Indian capital".[138]

However, once the Indian capitalist class (in the 1940s) began to plan on very large-scale industrial development, it was faced with two major bottlenecks: lack of capital equipment and technology. So long as India did not develop its own basic industries, as well as its own technological base,

[134] *Indian Fiscal Commission Report*, 1921–22, Minute of Dissent, para 50 and FICCI, *Proc. of EC*, 1932 and 1934.

[135] *Ibid.*

[136] Indian Chamber of Commerce (Cal.) to FICCI, 22 June 1935, FICCI, *Corresp.*, 1935, pp. 4–9.

[137] *Indian Fiscal Commission Report*, 1921–22, Minute of Dissent, para 54.

[138] FICCI, *Proc. of EC*, 1932 (emphasis mine). Walchand was reacting, in his usual fashion, rather sharply, to the currently held British view that "as India would be requiring substantial foreign capital to develop her large industries, there should be a definite assurance of security to encourage foreign investment in India". *Ibid.*

it was recognized that it would be dependent on foreign imports for this purpose.[139] The Bombay Plan, for example, envisaged that about 26 per cent of the total planned investments would have to be met with external finance (mainly to acquire foreign exchange) "for payment to foreign countries for goods and services imported from them".[140] Taking into account the various sources of such foreign exchange, such as hoarded wealth (gold), earnings through a positive balance of trade (which because of the repatriation of most of the sterling debt and later the total elimination of home charges would be available as external finance) and the sterling balances, it was still felt that there would be a shortfall (about 7 per cent of total investment and 28 per cent of external finance) which *would have to be met through foreign borrowing*.[141] The National Planning Committee also noted in November 1945 that "in view of India's vast capital requirement in the coming years...she may need capital from other countries", which was only to be accepted "in the shape of loans or credits raised through or by the state".[142] It is worth noting here that the shortage felt was not so much that of internal resources for investment, but that of hard currency for buying capital equipment and technology,[143] a point that the Indian capitalists repeatedly emphasized throughout 1920–47.[144] This distinction is important, as dependence of the former kind would indicate

[139] A preliminary survey by the *Eastern Economist*, showed that because of India's inability to manufacture high grade equipment the proportion of external finance (for imports) necessary in modern industry was 70 per cent (about 75 per cent in paper, 60 per cent in jute, 70 per cent in sugar, etc.). To reduce this dependence on external finance, it was suggested that basic industries should be developed in the early parts of the plan, as was done so effectively in Russia. *EE*, 16 July 1943, p. 304. Similarly, one of the major demands of the Indian capitalists from the beginning to the end of our period was that (*a*) conditions should be put on foreign enterprises to force them to impart technical training to Indians and (*b*) that the government should promote research (the scientific and industrial research board formed by the government was a result of such a demand), and restrict the utilization of its fruits to Indians only. See, for example, *Indian Fiscal Commission Report*, 1921–22, Minute of Dissent, para 51; A.D. Shroff in FICCI, *AR*, 1938, pp. 21 and 28; A.L. Ojha (President) in FICCI, *AR*, 1941, p. 10.

[140] *Bombay Plan*, p. 51.

[141] *Ibid.*, pp. 51–56. The percentage of foreign borrowing necessary would have been much larger had they not assumed that about Rs 10,000 million would be available to India through her sterling credits.

[142] *NPCR*, p. 237.

[143] *The Eastern Economist* (a few months before the Bombay Plan was published), while fully admitting the need for foreign borrowing in the existing circumstances, still felt that if India had the political power to safeguard her foreign reserves (sterling balances) and could use its trade balance judiciously, then "the revolution in her economic life [could] be achieved without any foreign borrowing". 20 August 1943, p. 475. This belief was reminiscent of Walchand's statement in 1932, with now the added confidence of the huge sterling balances. Even G.D. Birla put forward the view in 1945 that if sterling balances were returned there would be no need for foreign capital at this stage. *EE*, 25 May 1945.

[144] See G.D. Birla in FICCI, *AR*, 1946, pp. 1 and 27; and *EE*, 4 June 1948, pp. 1001–03, 3 January 1947, pp. 44–47, 16 November 1945, pp. 701–3, 23 April 1945, 15 December 1944, pp. 653–55.

a far greater structural weakness than would be reflected by dependence of the latter kind.

As regards the availability of capital goods and foreign loans the Indian capitalists were not too worried to begin with. The Bombay Plan confidently claimed that "India's credit in foreign capital markets is now very high and she can, therefore, borrow substantial amounts of capital if she so wishes in these markets, especially in America".[145] It was further felt that after the war the advanced countries, particularly the USA, would eagerly look for markets for their capital goods and, being keen on preventing a slump, or in order to maintain the war level economic equilibrium at home, they would generously give loans to enable purchase of their capital goods.[146] Besides, this would be the most profitable outlet for the "vast savings in the advanced countries" which would get "congested" after the inflated war demand declined.[147]

However, by 1945 this complascence was fast disappearing on a number of counts. Britain was clearly going to be unable or unwilling to liquidate the sterling balances by exporting capital goods to India in sufficiently large quantities as, first, it itself needed capital goods for its post-war reconstruction and, second, it preferred to export to other countries (such as Russia) which, unlike India, not being creditor countries, would make immediate payments for their purchases.[148] Britain was also not willing to convert the sterling balances into dollars or other hard currency, as it itself had a severe balance of payments problem with the USA, and as it wanted to prevent India buying elsewhere. In fact, the Capital Issues Control introduced by the government was used effectively to prevent, as far as possible, Indians from making purchases outside Britain even when there was hard currency available and offers were made for supply of capital goods by other countries.[149]

The Indian capitalist class now looked to the USA for help[150] but all was not in order on this front as well. The industrial delegation to UK and USA, led by Tata and Birla, returned with the message that the prospect of securing capital equipment from these countries was not too bright in the immediate post-war years.[151] As for loans, it was said that it was a mistake

[145] *Bombay Plan*, p. 53.

[146] *EE*, 15 December 1944, pp. 653–55; and *EE*, 15 September 1944, pp. 293–94.

[147] *Ibid*.

[148] See G.D. Birla in FICCI, *AR*, 1946, pp. 20–21; and *EE*, 16 February 1945 and 23 February 1945, pp. 219–20.

[149] G.D. Birla accused the capital issues department of being "an agent of British manufacturers of capital goods" and wondered whether the "aim (was) to encourage Indian industry or to promote British sales". FICCI, *AR*, 1946, p. 19. See also FICCI to GOI, Finance Dept., May 1946, FICCI, *Corresp.*, 1946, p. 115. Also see Chapter 9, Section 4.

[150] "India must now look to America for the fulfilment of a good part of her plan", *EE*, 23 February 1945, pp. 219–20.

[151] *EE*, 21 September 1945, p. 415.

for India "to think that America [was] only waiting to be called upon to lend capital to her".[152] The US opinion was clear that rehabilitation of war devastated areas must have prior claim over the "undue ambitions of underdeveloped countries to industrialise".[153] Moreover, the United States was giving loans on political considerations to countries like Britain, Russia, China, etc., India being on a low priority.[154]

To add to their woes, the huge food imports necessary in this period, combined with the government allowing unnecessary consumer good imports,[155] were cutting into the already meagre foreign exchange resources.[156] The Indian capitalist class was in a tight corner. The *Eastern Economist* lamented: "the most outstanding tragedy of this country in the post-war period was its inability either to manufacture or to import capital equipment".[157]

Given this situation it was not surprising that the Indian capitalists now commenced a severe agitation, through all possible forums, demanding a quick and full liquidation of the sterling balances. The British attempt to appropriate India's dollar earnings through the empire dollar pool was also roundly condemned; and India's right to conserve and utilize these resources at this crucial juncture for her own economic development was emphasized. (See Chapter 5.)

What is important is the fact that help was now sought from the government to secure supplies of capital equipment and foreign loans for India. It was suggested that the Government of India should negotiate with foreign countries, specially the UK and the USA, to secure supplies of "plant and machinery and technical skill" and, if necessary, should enter the market as "buyers of capital... for the use of indigenous enterprise and any loss... can be treated as legitimate government expenditure towards speedy progress of industrial production in the country".[158] Similarly, the government was also urged to "immediately explore the possibility of a temporary dollar loan to finance immediate import of capital equipment".[159] A special

[152] *EE*, 23 February 1945, pp. 219–20.

[153] *Ibid*.

[154] *EE*, 30 November 1945, p. 789.

[155] G.D. Birla in FICCI, *AR*, 1946, pp. 20–21; *EE*, 21 November 1947, p. 720.

[156] An added problem in 1947 was the fact that India's balance of trade with the USA, which had been favourable for decades, suddenly turned adverse. *EE*, 1 August 1947, and 21 November 1947, p. 720.

[157] *EE*, 3 January 1947, pp. 12–14.

[158] President G. Lal to the Finance Minister, Interim Govt., FICCI, *Corresp.*, 1947, p. 139; FICCI to GOI, Dept. of Supply, 6 May 1943, FICCI, *Corresp.*, 1943, p. 110; FICCI, Press Statement, 4 March 1946, FICCI, *Corresp.*, 1946, pp. 96–97. A number of representations were also made to the government to ensure that "India's [share of the] claims in the payment of [war] reparations against Germany and Japan", were fully met and not usurped by the "Big Powers". This was seen as another source of "capital equipment and advanced technology". See, for example, FICCI, *Corresp.*, 1945, p. 216.

[159] President, Goenka, FICCI, *AR*, 1946, p. 10; *EE*, 16 November 1945, pp. 701–3.

financial arrangement directly with the government of the USA on the lines of the Anglo-American Agreement was suggested for this purpose.[160]

The IMF, World Bank, International Bank, Export–Import Bank (USA) and such other international bodies were now looked upon eagerly as sources of foreign exchange.[161] The preference was for external capital coming in through such bodies and through government agencies as against the direct entry of foreign private capital. The US proposal at the International Trade Conference (see Chapter 9) that the flow of private capital should be encouraged and guaranteed against discrimination and expropriation was criticized. It was said that financial aid to underdeveloped countries should be given, as far as possible, through governmental agencies as—"to sanctify the incursion of private foreign investment by granting it privileges under the trade charter will be looked upon as a measure designed to perpetuate economic domination in under-developed areas".[162] Similarly, B.M. Birla had warned the Reserve Bank of India against the danger that advanced countries like the USA and UK might, in the post-war period, seek to invest foreign capital in Indian industries in the name of "raising the standard of living of the poor countries". He added that attempts at raising the standard of living of such poor countries were to be made by "*nationals* of the country with the help of imported technicians and, if necessary (through) *loans from…different countries*"; it was not to be done through direct "investment of capital by [foreign] individuals or governments in the industries of the [poor] countries".[163]

However, while seeking the cooperation of various international bodies like the IMF for securing loans for acquiring capital equipment, etc., the capitalists were very clear that such help was definitely not to be sought at the cost of fiscal or financial autonomy[164] or of the "diminution of sovereign powers inherent in a nation to…pursue a…a policy suited to her own particular national needs".[165] The Bombay Plan had also envisaged foreign borrowing only "if it (was) not accompanied by political influence or interference of foreign vested interests".[166]

[160] FICCI, Press Statement, 4 March 1946, p. 97; *EE*, 4 October 1946, p. 548.

[161] The Indian capitalists, to begin with, had opposed the decisions at the Bretton Woods Conference, as it ignored the sterling balance settlement question, and did not provide for a permanent seat for India in the executive of the IMF. FICCI resolution in FICCI, *AR*, 1945, pp. 23–24. Later, on certain assurances it supported India's joining the IMF and International Bank, etc., as it would "help us in providing us with the necessary foreign exchange resources so that we may proceed rapidly with our plans of development". Badridas Goenka (President), FICCI, *AR*, 1946, pp. 11–12; C. Seshachalam (Andhra Chamber of Commerce), in FICCI, *AR*, 1945, pp. 31–32; *EE*, 8 November 1946, p. 747.

[162] *EE*, 1 August 1947.

[163] B.M. Birla to Reserve Bank of India, 23 November 1943, *PT Papers*, fl. 297, emphasis mine.

[164] FICCI to GOI, Dept. of Supply, 10 May 1943, FICCI, *Corresp.*, 1943, p. 11.

[165] FICCI resolution moved by A.D. Shroff, FICCI, *AR*, 1945, pp. 23–24.

[166] *Bombay Plan*, p. 53. As the *Eastern Economist* put it, if foreign loans are taken, "suitable safeguards will have to be devised to secure that foreign vested interests do not gain hold

The fear was particularly that of the USA now establishing its hegemony over world capitalism, rather than that of Great Britain. The USA was said to be giving loans with onerous conditions such as an "assurance that no political disturbance could be expected in the debtor nation" and "that credits shall not be used for building production that might interfere with American export goods", and so on.[167] In these circumstances, one interesting suggestion was that since it would be "inadvisable...to apply for direct loans from the USA, Great Britain should apply for the loans in India's stead. After receiving the loan, Great Britain should then release part of the sterling balances" and part of the loan "should be put at the disposal of India in the form of British assets in foreign countries, including the USA".[168]

VIIIb. Direct Participation: Terms

While foreign loans were now acceptable provided there were no "strings attached" and India had the right to regulate them, the Indian capitalist class was to begin with strongly opposed to any direct participation by the lenders or by foreign capital.[169] In 1944, N.R. Sarkar (of Bengal National Chamber of Commerce), while admitting the necessity to borrow abroad, said:[170]

> Our liability will be merely to pay an agreed rate of interest on the capital borrowed and its final repayment. No other conditions such as participation in control or profits, etc., must be attached to such borrowing.

However, capital equipment, technology, as well as loans (to meet foreign exchange needs) were available only on very strict terms. It was a "seller's market". America made its preference for direct participation by foreign capital clearly known, and insisted that only on that condition should foreign investment be made.[171] The UK was also demanding 50 per

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over our vital industries and undermine our political sovereignty". *EE*, 19 May 1944, p. 764, and 23 February 1945, pp. 219–20.

[167] P.S. Lokanathan's (Editor of *EE*) discussions with American government officials and businessmen. See *The Hindu*, 17 January 1945; and *EE*, 19 January 1945, p. 67.

[168] P.S. Lokanathan, *ibid.*; and G.D. Birla, *Free Press Journal*, 23 March 1945. While this was a good way of getting part of the sterling balance released with American help to Britain, the other consideration of Britain being safer as (*a*) India was still a creditor country to Britain and (*b*) it was relatively week compared to the USA, was not entirely absent.

[169] The preference for "loan capital" to direct investments was declared in the 1920s itself. For example, see *Fiscal Commission Report*, 1921–22, Minute of Dissent, para 49.

[170] FICCI, *AR*, 1944, p. 31. The *Bombay Plan* also made no provision for direct participation by foreign capital.

[171] *EE*, 24 November 1944.

cent participation for its capital if it was to supply capital equipment and sophisticated technology.[172]

The Indian capitalists reacted very sharply to such demands. M.A. Master, an eminent leader of the capitalists and President of the IMC, retorted:[173]

> The participation in the capital and control of industries could not be allowed to become the condition precedent for the obtaining of technical skill and capital goods. India would prefer to go without industrial development rather than allow the creation of East India Companies in this country which would not only militate against her economic independence, but would also effectively prevent her from acquiring her political freedom.

India, it was said, did not want foreign capital as partners, she only required capital goods. If certain foreign countries or companies insisted on capital participation in return for capital goods or technology then Indians would look elsewhere.[174] Also, it was denied that foreign expertise would not be available unless foreign capital participation was agreed to. It was said that if foreign experts were properly paid, if necessary more than their market value, then they would be available. The case of the Tata Steel Works was cited where the Tatas were able to get the services of foreign experts, paying a salary of over Rs 0.3 million a year till they were able to put an Indian in charge of the works.[175]

The capitalists were opposed to even foreign *minority* participation of up to 45 per cent,[176] there being no question of granting an equal or controlling position.[177] It was argued that foreign capital through block holdings (however small the proportion of shares held, even 10 to 15 per cent) could acquire a dominant voice and influence the company's policy in a direction "inimical to the larger interests of the country".[178]

[172] *Ibid.*; and *EE*, 1 December 1944, p. 612, and 29 January 1945.

[173] M.A. Master's speech on the occasion of the visit of Sir Ardeshir Dalal (Planning and Development Member) to the Chamber (IMC), 26 April 1945. *WH Papers*, fl. of L.H. No. 143, Pt. I; and *The Hindustan Times*, 28 April 1945. Also see Walchand's interview, 2 May 1945, *WH Papers*, fl. of L.H., pt. I.

[174] A.R. Dalal and G.D. Birla quoted in M.A. Master, President IMC, speech at 2nd quarterly meeting, 16 August 1945, *WH Papers*, fl. 92, pt. I.

[175] Note of conversation of M.A. Master with the Jt. Secretary, Planning and Development Department, Government of India, 24 November 1944, *WH Papers*, fl. 618, pt. II. See also M.A. Master to G.L. Mehta, 1 September 1946, *WH Papers*, fl. 620.

[176] The safeguard of keeping "controlling interest" was not considered sufficient. "If foreign interests are given the opportunity for direct participation in Indian industries on the basis of contribution of capital, this would also involve foreign control". M.A. Master in *Hindustan Standard*, 23 May 1945.

[177] A.D. Shroff in *Amrita Bazar Patrika*, 1 June 1945.

[178] Indian Chamber of Commerce, Calcutta to Dept. of Industries and Supplies, Government of India, 2 December 1946, *WH Papers*, fl. 70. See also M.A. Master, fns 174 and 175.

However, given the acute shortage of capital equipment, technology and foreign exchange, and the non-availability of foreign loans, which was preventing not only the rapid growth of the Indian capitalist class but even making it impossible for it to replace the plant and equipment (greatly over-worked during the war), i.e., faced with a situation where it had to grow immediately or collapse, the Indian capitalist class by and large began to abandon such an extreme position regarding foreign participation by about 1945.

The reasoning was clear: "India needs capital equipment and technical personnel and knowledge on a large scale for a wide and varied range of industries and processes and they are not likely to be obtainable except on terms which might involve more than mere payment for goods and services".[179] "Moderate financial participation" was now agreed to in return for "technical assistance, machinery and experience, ... [but] subject always to the overriding condition that in no case will this country accept the control...to rest in non-Indian hands".[180] Even the National Planning Committee, which in general recommended only "loans or credits raised by or through the state", felt that "in the case of key industries involving the use of secret processes [sophisticated technology] which would not be otherwise available to the country, foreign participation in ownership and management may be permitted".[181]

The nature of foreign participation was, however, to be strictly regulated; and severe bargaining ensued on the terms of such participation. The terms laid down by the industrialists' delegation to the UK and USA (led by Tata and Birla) were the following: the Indian industrialists wanted (*a*) capital goods, (*b*) foreign technicians, and (*c*) patents and manufacturing rights, in return for which they offered foreign participation on the basis of (*a*) royalties to be paid for patents and manufacturing rights, (*b*) share in profits for a limited period not exceeding 15 years, (*c*) shares to the extent of 25 to 30 per cent, and (*d*) most important of all, cooperation

[179] Minister of Industries, Interim Government, quoted in *EE*, 14 February 1947, pp. 311–12.

[180] J.C. Setalvad (President), FICCI, *AR*, 1945, p. 13; and G.L. Mehta, FICCI, *AR*, 1945, p. 16. As the *Eastern Economist* put it: "where the 'no-how' [sic] is so essential that foreign participation is inescapable even a 25% participation by foreign enterprise may be tolerated, provided of course the Government of India guarantee that in all other respects i.e., in control and management, it is Indian, and that technical training is imparted to Indians and that ultimate transfer of interests will be made to Indian hands, if there is any tendency towards foreign domination". 9 March 1945, pp. 281–82.

[181] NPCR, pp. 236–37 (emphasis mine). This strictness of the NPC, in allowing even foreign minority participation only in "exceptional cases and under rigid limitation", was criticized by the *Eastern Economist*, and was said to be based on the "expectation that [India would] be able to secure enough capital assistance in the form of loans or credit raised through the state". 23 November 1945, pp. 748–49. This was an expectation which as we saw above was increasingly proving to be illusory.

was to be based on complete control by Indian finance.[182] In other words, even if foreign participation was allowed it would be small, ensuring complete control by Indians.

The *preference* was, however, still for an arrangement where there was no financial participation at all or where "participation [was] restricted to a share in capital without voting strength, such as through debentures".[183] To a query by the Planning and Development Department, Government of India, regarding the need for cooperation with foreign firms in capital and/or management, the FICCI executive committee maintained as late as October 1945 that they were "strongly opposed to any degree of cooperation with foreign firms as necessary or desirable both as regards capital and/or management".[184] Instead of participation, the capitalists were willing to pay royalty or an "equitable price" for technical skill and capital equipment.[185] Furthermore, if foreign capital was necessary for acquiring

[182] Reported in *EE*, 29 June 1945. Also: "British industry (in general) ... rejected cooperation on this basis and claimed equality in shares and ultimate financial control in heavy industry.... They were however prepared to yield control in specific consumer goods [industries] like textiles." *Ibid*. G.D. Birla in reply warned the British industrialists "that India will seek other markets if the supply of machinery and technical skill is conditioned by British managerial control of Indian industry". *EE*, 22 June 1945, p. 822. Sir Ardeshir who had gone on a tour of UK and USA in his official capacity as Planning and Development member at the same time as the industrialists' delegation, also laid down the terms on which foreign participation would be acceptable as 70 per cent Indian and 30 per cent British capital, the control and management being in Indian hands. *EE*, 21 September 1945, p. 415; and Viceroy to L.S. Amery, 2 January 1945, Private office papers *L/PO*, fl. 473, IOR. Even those among the capitalists (like Dalmia) who argued that given the shortage of capital and so many countries competing for it, India should not insist on 30 to 40 per cent foreign participation as a limit, if it was to get any capital at all, insisted on conditions which ensured ultimate Indian control. For example, Dalmia suggested that 49 per cent foreign capital should be allowed, and in special cases even 70 to 80 per cent may be allowed with *fixed time limits*, say 10 or 20 years, *"after which we may acquire their interests"*, or shares may be given to foreigners beyond 49 per cent which have no voting rights. *EE*, 22 June 1945, p. 842 (emphasis mine). This amount of liberalism towards foreign capital (which still by no means amounted to "capitulation") was not generally acceptable to the dominant section of the Indian capitalists, and in fact hardly any agreement, in our period, took place with such terms.

[183] *EE*, 15 December 1944, pp. 653–55 and Indian Chambers of Commerce, Calcutta to Dept. of Industries and Supplies, Government of India, 2 December 1946, *WH Papers*, fl. 70. A significant strand of capitalists remained totally opposed to any foreign capital participation under any conditions till at least a few years after independence. *Ibid*. and M.A. Master, 24 November 1944 and 16 August 1945 (see fns 174 and 175).

[184] FICCI to Secretary, Iron and Steel, Planning and Development Department, 23 October 1945, FICCI, *Corresp.*, 1945, pp. 140–43.

[185] G.D. Birla in *EE*, 22 June 1945, p. 822. *The Times of India*, 24 April 1945; and Birla, *Path to Prosperity* (collection of speeches and writings of G.D. Birla), p. 422. N.R. Sarkar also pointed out: "India's lamentable dependence on foreign technique is abundant exposure of the British rule in India, but India would never countenance the proposition that experts are to be attracted only by the offer of half partnership. Surely that was not how Russia industrialised herself. Experts who are only the servants of the country which gets them cannot seek to be its masters." *EE*, 24 November 1944.

technical skill or machinery, the preference for "loan capital" over direct participation was consistently reiterated.[186]

Last, the dangers of foreign participation were constantly emphasized even though it was to be only on terms where the foreigners would be the "junior partners".[187] The *Eastern Economist* enumerated instances of how American financiers had obtained a stranglehold over many countries in South America (such as Colombia, Peru, Chile and Bolivia) by various means although there was no formal political subjection and the companies in which the Americans invested had majority domestic directors.[188] India could not permit imperialism to continue in an altered form or with a different metropole. The warning was therefore given that: "It would be suicide for us to enter into an economic alliance on terms such as these. Having sufficient experience of the techniques of British political imperialism, we are not going to court the economic imperialism of their cousins across the sea".[189]

VIIIc. Collaboration Agreements

There were various negotiations for setting up collaborations between Indian and foreign companies, as well as, several actual collaboration agreements that occurred in our period (particularly in the automobiles sector) which illustrate the framework within which the Indian capitalists

[186] Stand taken by FICCI delegates at the Rye Conference (USA) *EE*, 1 June 1945, p. 730. One may note here another important factor which would often influence the Indian capitalist class's attitude regarding the form in which it wanted foreign capital. For example, while on the one hand it would generally encourage foreign capital through government loans to prevent direct competition (a stand very strongly taken in 1949 when the government was trying to liberalize the entry of foreign capital), on the other hand it would oppose too much government borrowing, seeing in it a threat to private enterprise itself. For example, the *Eastern Economist*, referring to the NPC plan, commented in 1945, "unless we envisage complete and wholesale socialisation, it is not clear why all loans and credits from abroad must be by or through the state". 23 November 1945, pp. 708–9. So, besides the fear of foreign capital, the capitalists also had to watch out for the public sector encroaching too much into what it considered its own preserve. (See also Chapter 11 for an elaboration of why and to what extent the Indian capitalist class wanted a public sector.) Kidron has shown shifts in the Indian capitalists' attitudes towards foreign capital based on this fear, e.g., in the late 1950s when the capitalists welcomed direct foreign private investment seeing in it a bolster to private enterprise. Kidron, *Foreign investment in India*, p. 179. One point however must be emphasized here, that in India the "fear of nationalization", or of the left, was never strong enough, particularly in our period, for the Indian capitalist class to be so threatened as to see its interest in seeking the help of foreign capital even on terms of total domination by it.

[187] A.R. Siddiqui, President, Muslim Chamber of Commerce, speech delivered at the meeting of the Commerce and Industries Association (New York), quoted in *EE*, 26 January 1945, p. 105.

[188] *EE*, leading article, 27 July 1945, pp. 117–18.

[189] *Ibid*.

sought to establish a relationship with foreign companies. A brief survey of some aspects of these negotiations and agreements is given below.

Automobile Sector

(a) *Visvesvaraya's Proposals*[190] *for Manufacture of Cars and Trucks in India: 1935–36*

As early as 1935 M. Visvesvaraya mooted the proposal to start an automobile industry in India to a cross-section of Indian businessmen. He toured Europe and the USA studying the automobile industry and in 1936 proposed the setting up of a joint-stock company called Indian Motors Ltd. involving major Indian businessmen such as Walchand, Purshotamdas, Khatau, J.R.D. Tata, G.D. Birla and Kilachand. To begin with the company was to manufacture about 10,000 cars and 5,000 trucks annually.

It was recognized that cooperation with European or American firms would be necessary in the initial stages in order to obtain the latest designs and technology and to get assistance in setting up manufacturing plants. However, at the very outset it was made clear that foreign cooperation was not to be secured through the foreign firm putting in half the capital as it would lead to the foreign firm wanting to control the company. The preferred course was to get the foreign company to help in the erection and initial operation of the factory on "payment of a *lump sum subsidy*" on completion of the work or a "*fixed royalty* on every car manufactured and sold, for a term of years". The entire capital was to be raised within the country and after the first 12 to 18 months even the technical management was to shift to the hands of local engineers and experts.

(b) *Walchand–Ford Negotiations*[191] *for Manufacture of Cars and Trucks in India: 1939*

Negotiations were started in July 1939 with Ford Motor Co. in Michigan, USA, by the managing agents (Walchand, Khatau and Kilachand) of the motor company proposed by Visvesvaraya. The prolonged negotiations, based on Visvesvaraya's proposals, finally broke down basically on the question of Ford Co. insisting on 51 per cent of the shares in the Indian

[190] M. Visvesvaraya's Proposal to start Automobile Industry, 1 April 1935, *WH Papers*, fl. 552, pt. 1; Visvesvaraya's Note on Proposed Automobile Factory, attached to Visvesvaraya to Purshotamdas, circular letter, 26 November 1936, *PT Papers*, fl. 190; and Visvesvaraya's confidential Note on Development Programme of Proposed Automobile Factory, 14 January 1937, *WH Papers*, fl. 552, pt. 1.

[191] Confidential Report on Proposed Automobile Factory by P.B. Advani (one of the major negotiators on behalf of Walchand), 29 October 1939, *WH Papers*, fl. 553; Walchand's Note to Lalchand on negotiations with Ford Co. and meeting with Henry Ford, 11 July 1939 and 17 August 1939, *WH Papers*, fl. 552, pt. 1 and fl. 553 respectively; and Advani's Note No. 2 regarding negotiations with Ford in Detroit, USA, 17 August 1939, *WH Papers*, fl. 553.

company (33 per cent as compensation for their services and 18 per cent as their own investment). Lobbying was done with Henry Ford himself and the negotiations were reopened. However, eventually, by September 1939 the negotiations were finally terminated as the Indian side stuck to their original position: "under no circumstances will we agree to make payment in any shape or form which will enable the Ford company to now have or acquire in the future... control of the Indian Company".

The Indian offer remained that of compensating Ford on the basis of *royalty* per car (3 per cent ex-factory price) and if necessary a minimum lump sum annual payment. The maximum concession the Indian negotiators were willing to make to meet the demands of the Ford Co. was to offer Ford shares of the value of half-a-million dollars but with the stringent conditions that (*i*) these shares would have *no voting rights;* (*ii*) these shares could not be sold for the first 5 years; (*iii*) even after that they could not be sold to an extent greater than 10 per cent per year; (*iv*) the Indian company was to have first option of buying these shares; and (*v*) if the Indian company did not buy the shares they could be sold only to another Indian. The Indian side was also willing to pay royalty of 1.25 per cent in addition to the above stock and pay separately the salaries and travelling expenses of Ford experts. In a futile last ditch effort to prevent breakdown of the negotiations Walchand even considered paying additionally an annual compensation to Ford for its loss of market in India and further pay to Ford, Detroit a part of the engineering and research overheads (in proportion of Indian production to their total production).

What the Indian side expected from Ford is significant. Inter alia, they wanted (*i*) monopoly of all Ford products in the markets of India, Burma and Ceylon, (*ii*) all new designs and results of research and experimental work to be "automatically" made available to the Indian company without delay. Ford was also to (*iii*) help the Indian company acquire necessary machinery and equipment, (*iv*) prepare detailed layout for the Indian factory, (*v*) send experts to erect machinery and equipment, as well as, to run them till Indian personnel were trained, and (*vi*) train requisite number of Indians in the Ford factory in the USA. The agreement was to be for an initial period of 10 years after which it could be renewed unless either side gave 12 months notice for termination of the agreement.

(c) *Walchand–Chrysler Agreement*[192] *for Manufacture of Cars and Trucks: 1939–40*

The negotiations with Ford having reached a dead end, an agreement on a different basis with Chrysler Corporation, USA was now sought for the

[192] Advani's note nos. 10 and 11 on meetings with Chrysler Corporation in Detroit, 27 September 1939 and 6 October 1939, *WH Papers*, fl. 553; Confidential and Personal Note on Automobile Scheme and Agreement with Chrysler, sent to Kasturbhai, G.D. Birla, Sri Ram, etc.,

manufacture of vehicles of the Chrysler line including Dodge, Plymonth and De Soto cars and Dodge and Fargo trucks. The agreement eventually finalized in April 1940 was on the following basis: "Payment to the Chrysler Corporation of a certain *annual royalty* for their technical advice and for supplying exclusively at a certain price to the Indian company all parts that are not manufactured in India. *Chrysler Corporation will not be directly or indirectly interested in any capital or shareholding of the Indian company nor will they have any representation on the Board or any voice in the management of the company.*" The managing agents of the company were to be Walchand, Khatau and Kilachand and efforts were made to include eminent Indian businessmen like G.D. Birla, Sri Ram and Kasturbhai in the board of directors.

Later, in 1944, the Indian company was rechristened Premier Automobiles Ltd. with Walchand as its president. The Indian company maintained sustained pressure on Chrysler to quickly help implement the manufacturing programme in India as, apart from other reasons why early manufacture in India was desirable, the Indian company was "not interested in Import–Export work and...(had) entered into an agreement with Chrysler purely for the *manufacture* of automobiles", not for the *assembly* of imported knocked down parts. Premier Automobiles had chalked out a detailed plan of phased indigenization of the Chrysler vehicles in the post-Second World War years.

(d) *Walchand–Ford Negotiations*[193] *for Distribution and Manufacture of Ford Tractors: 1945*

In 1945 negotiations began between Premier Automobiles Ltd. and Ford for the manufacture and distribution of Ford tractors. Some of the critical assumptions made by the Indian side in conducting the negotiations were: (*i*) the Indian company would be *entirely Indian with regard to capital and control,* (*ii*) the American company would supply the necessary engineering drawings and data for production of parts including motors in India, for which it would be compensated by *lump sum payment,* (*iii*) the American company would provide necessary know-how and personnel whose cost would be borne by the Indian company.

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19 April 1940, *WH Papers*, fl. 556, pt. 2; Note of Premier Automobiles Ltd. containing details of Chrysler Agreement, 26 March 1946, *WH Papers*, fl. 104; Lalchand Hirachand, Director, Premier Automobiles to V.M. Meswani, C/o, Chrysler Corporation, Detroit, 28 May and 30 May 1946, *WH Papers*, fl. 105; Lalchand's Note, 31 October 1947 attached to Lalchand to Visvesvaraya, 9 January 1948 and Lalchand to Directorate General of Industry and Supply, Government of India, 5 March 1948, *WH Papers*, fl. 567.

[193] Lalchand Hirachand, Director, Premier Automobiles to President, Harry Ferguson Inc., Michigan, USA, 15 May 1945, *WH Papers*, fl. 566, pt. 1.

(e) *Walchand–Rootes (UK) Negotiations*[194] *for Manufacture of Small Cars (Hillman) in India: 1945*

At the very outset the Indian side made it clear that the British company was to have *no capital participation* in the Indian company. They were to be compensated for supplying technical information on the basis of a *fixed monthly payment*. The Indian side felt that the amount of compensation demanded was too high and the conditions regarding territorial market sharing, distributorship, etc., were too stringent; consequently the negotiations broke down on these grounds.

(f) *Birla–Nuffield Agreement*[195] *for Manufacture of Morris Cars in India: 1945*

Birla's Hindustan Motors Ltd., which had, apart from the Birlas, Purshotamdas, Badridas Goenka, Kasturbhai, Mafatlal, M. Chettiar, Dawood and N.R. Sarkar on its board of directors, entered into an agreement, in mid-1945, with Morris Motors Ltd., UK (the largest exporters of cars to India) to manufacture in India Hindustan Ten, a copy of Morris Ten cars. The capital of Hindustan Motors was to be held entirely in India and *Nuffield was to have "no financial interest direct or indirect in the capital of this company and have nothing to do with its management or control"*. As Sir Miles Thomas, Managing Director of Nuffield, was to reiterate: "The basis of this cooperative effort is that if there is going to be an Indian car manufactured by Indians for the Indian market and if the finance is provided from Indian sources the administrative control of the project should be vested in Indian hands."

The agreement provided that Nuffield would supply technical assistance and give patent rights to the Indian company in return for a certain fee or royalty on sales. Initially Hindustan Motors was to assemble cars using Nuffield manufactured parts. Over time an increasing proportion of the car's parts and accessories were to be manufactured in India until Hindustan Ten became an all-Indian product, including the engine. G.D. Birla predicted: "Within five years of the termination of hostilities [Second World War] we shall be producing the Hindustan Ten in its entirety."

The British firm was to supply a team of technicians who "as employees of the Indian firm" would help in the setting up of Hindustan Motors. Birla's contract with Nuffield was not to preclude negotiations with other foreign automobile producers.

[194] Walchand to Lalchand, 12 May 1945 and Lalchand to Walchand, 15 May 1945, *WH Papers*, fl. 566 and fl. 566, pt. 2 respectively; and correspondence between Lalchand and Rootes, May 1945, *WH Papers*, fl. 99.

[195] Extracts from *Fortune*, June 1945, p. 285, *Hindustan Standard*, 11 September, 19 December and 22 December 1945, in *WH Papers*, fl. 101, pt. 2; *EE*, 29 June 1945, 4 January 1946; *Capital*, 3 January 1946; *The Times of India*, 6 March 1945; *Free Press Journal*, 31 March 1945; and *Commercial India*, 21 April 1945. Though my sources do not corroborate this, Dutt, *India Today*, p. 190; and Levkovsky, *Capitalism in India*, p. 398 suggest that as part of the Birla–Nuffield agreement the latter was to receive 25 to 30 per cent of the shares of the Indian company.

(g) *Birla–Studebaker Agreement—1945*[196]

Towards the end of 1945, Hindustan Motors was reported to have concluded an agreement with Studebaker Corporation, USA, on lines similar to the one with Nuffield. Here too the foreign company was not to provide "any part of Hindustan Motors' Capital or have anything to do with its management or control".

(h) *Walchand–Austin Negotiations*[197] *for Manufacture of Austin Cars in India: 1946*

Premier Automobiles, Bombay began negotiations in 1946 with Austin Motors, England, for the manufacture of Austin cars (below 15 H.P.) in India. The negotiations were to be on the lines of the agreement with Chrysler. Premier Automobiles would be entirely an Indian company with Indian capital, Indian supervision and Indian labour, barring a few foreign experts and technical personnel. The foreign company was not to buy or own directly or indirectly any shares or stock in Premier Automobiles. The foreign company was to be compensated for the technical services provided through an *annual royalty or fixed payment*.

(i) *Walchand–Fiat Agreement for Manufacture of Cars: 1950*[198]

Around 1950 Premier Automobiles entered into an agreement with Fiat, Italy, for assembly and manufacture of Fiat cars in India. Again, the terms were similar to those in the agreement with Chrysler, i.e., the foreign company was to have no capital participation, it was to be compensated for technical information through annual lump sum payments, it was to provide technical training to Indian personnel, etc. The agreement was to be initially for five years and either party could terminate it with six months' notice. The proportion of indigenously manufactured components of the car was to be raised in a phased manner.

Other Collaborations

(j) *Kirloskar–Brush Electricals/British Oil Engines Agreement:*[199] *1945*

Kirloskar Bros. entered into two separate agreements with Brush Electrical Engineering Company and British Oil Engines in 1945. The foreign companies would get 15 per cent of the equity plus royalties for a few years in return for supplying designs, technical assistance, processes, etc.

[196] Letter to the Editor by G.C. Dhariwal for Hindustan Motors Ltd., *Hindustan Standard*, 22 December 1945, in *WH Papers*, fl. 101, pt. 2.

[197] Proposal from the Premier Automobiles Ltd., Bombay to Austin Motors Ltd., England for Cooperation in the Manufacture of Austin Cars in India, 26 March 1946, *WH Papers*, fl. 104.

[198] See *WH Papers*, fl. 569.

[199] See Kidron, *Foreign Investments in India*, pp. 70–71; and Bose, *Indo-British Big Business Deals*.

(k) *Tata Power Co. Ltd.: 1921*[200]

The charge that the capital of the Tata Power Company was chiefly non-Indian was strongly contested in 1921. It was pointed out that only 9 per cent of the capital subscribed "in the present development" was non-Indian. The Board of Directors consisted of eight members of whom only one was non-Indian—and he too was a technical expert.

(l) *R.N. Mukherjee (Martin & Co.) and British and American Companies:*[201] *1929–30*

Sir R.N. Mukherjee was the *senior partner* of Martin & Co., Calcutta, which has often been categorized as a European or non-Indian company. While no detailed data regarding the exact relationship of Mukherjee's business enterprises with foreign companies could be examined, his correspondence with Oswald Martin (his junior partner) suggests that while Mukherjee was open to cooperation with British and even American companies in various fields such as steel, electric power and railway wagons, he insisted on the Indian company retaining control over the enterprise. "Money," he said, "is not everything in the world.... I cannot give the name of Martin & Co. for the sake of money only." Even in fields, such as wagons, where he felt that not joining up with a British company could mean major problems in the future, Mukherjee insisted on maintaining the independent identity of his companies and argued, "we cannot knowingly commit suicide in anticipation of what may happen in the future". He was willing "to control them all but not be controlled by anybody". He even threatened to retire from his business empire if his partners and colleagues became inclined towards allowing control to pass on to foreign companies. Oswald Martin too seemed to prefer to tie up with the Tatas (in fields such as electric power) rather than allow "the Americans to control all the Indian works", a prospect which he found "distasteful".

(m) *Tata, Martin & Co., Bird & Co. and British Steel Interests:*[202] *1935*

A merger plan was discussed between the steel interests of the Tatas, Indian Iron & Steel Co. (R.N. and Biren Mukherjee) and Bird & Co., Calcutta (E.C. Benthall, a British businessman based in Calcutta) in the context of the fear expressed by the Tatas that one of their Indian competitors could come in with English interests into steel making in India. The Tatas as

[200] Tata Power Company Ltd., *PT Papers*, fl. 22.

[201] See, for example, R.N. Mukherjee to Oswald Martin, 14 May 1930, 22 October 1929, 14 November 1929, 20 December 1929 and Martin to Mukherjee, 4 June 1939, *R.N. Mukherjee Papers*, Mss. Eur. E-348, IOR, London.

[202] See, for example, Saklatwala, Chairman, Tata Iron and Steel Co. to Benthall, 1 September 1935, Notes of Benthall on Iron and Steel, 27 August 1935, 31 August 1935, Benthall to Saklatwala, 14 September 1935, 29 October 1935, *Benthall Papers*, Box XXIV, Centre for South Asian Studies, Archives, Cambridge.

pioneers in the field in India insisted on 50 per cent shares and thus overall control in the new company, despite Mukherjee and Benthall wanting a larger share for themselves.

Second, the Tatas repeatedly refused outright any capital participation to British steel interests in this scheme. The Tatas were very sensitive to public opinion in India being against foreign capital participation in Indian industry. Apart from this they felt that "at the stage of development in steel making... reached in India neither the British nor any other outside steel making firms [had] anything of essential value to contribute to a new concern in India, unless perhaps it happened to be in connection with some highly specialised line". Since no such specialized line was visualized in the proposed scheme it was felt that India should "proceed on its own resources". If some specialized needs arose in the future then "outside advice" could be got "in much the same way as... done in the past", presumably on the basis of fixed payments rather than giving capital participation and control to the foreign partners.

The most the Tatas were willing to consider was that the British interests be given some shares out of the quota allotted to Mukherjee and Benthall (Tatas keeping their 50 per cent) and that too on condition that the British interests got no representation in the directorate. Biren Mukherjee also was not keen to have British capital participation.

(n) *Tata–ICI (UK) Agreement: 1946*[203]

J.R.D. Tata was to be the chairman of the company formed in cooperation with ICI to establish the dyestuff industry in India. Capital participation and directorate was to be predominantly Indian in the new company. ICI would subscribe 24 per cent of the capital and the Tatas would contribute the *major part* of the remaining shares and retain the controlling voice. The Agreement was to be for 20 years.

The ICI was to make available to the new company all the technical information and knowledge at their disposal. A.D. Shroff, a director of Tatas, emphasized that "only the dearth of Indian research experts necessitated the partnership with an English concern". An important feature of the Agreement was that importation of dyestuffs into India would be progressively decreased in proportion to increase in internal production.

(o) *Walchand–British Industrial Plastics Agreement: 1945–46*[204]

In mid-1945 the Walchand group negotiated an agreement with British Industrial Plastics (formerly the British Cyanides Co. Ltd.) to manufacture plastics in India. The Indian side made it clear that they had no interest in

[203] *EE*, 4 January 1946, 25 January 1946 and 1 February 1946.

[204] Peter Chance, Director, British Industrial Plastics to Lalchand Hirachand, 22 May 1945 and 24 May 1945 and Lalchand to Chance, 26 May 1945, 20 September 1945, *WH Papers*, fl. 695.

importing finished goods for distribution but wished to concentrate on manufacture with a view to eventually becoming independent of imported materials. The British side was to assist in establishing the factory in India, train Indian employees, provide design, know-how, etc. In return the Indian side would pay an annual fee of £1000 for 10 years.

It was made clear that should the Indian side in future promote a company to manufacture "plastic products other than mouldings", then the British company might be given capital participation in that company which was not to exceed 20 per cent. It was felt that a concentration of more than 20 per cent of the capital in the hands of one holder in a public company could give that holder virtual control over the company. Given the strong feeling in India that control of Indian enterprise should rest with Indians, the foreign company could not be given such capital participation which would lead to their acquiring control.

(p) *Indo-British Collaboration to Manufacture Textile Machinery:*[205] *1947*

A new company called National Machinery Manufacturers Ltd. was set up in collaboration with Textile Machinery Makers Ltd. (UK) in 1947, with an authorized capital of Rs 50 million. Indian cotton textile mills were to take up 74 per cent of the shares and 26 per cent would be taken by the British company and its associates.

The British company could have 25 per cent representation on the Board of Directors so long as they held 25 per cent of the shares. Out of a total of 12 directors, the nine Indian directors were K.M.D. Thackersay (Chairman), Kasturbhai Lalbhai, Sir Homi Mody, D.M. Khatau, Sri Ram, G.D. Birla, S. Balabhai, Padampat Singhania and C.S. Tyabji.

The participation of foreign interests in the new venture was justified on the grounds of the need for technical skill and knowledge from foreign countries and of adequate safeguards having been taken to protect Indian interests.

(q) *Agreement between Machinery Manufacturers Corporation Limited (MMCL), Managing Agents, Mahindra and Mohammed Ltd. and H. & B. American Machine Company, USA and John Inglis Co., Canada for Manufacture of Textile Machinery:*[206] *1947*

The MMCL was incorporated in Bombay as a public limited company in May 1946. Purshotamdas was the Chairman of the company and others on the Board included K.C. Mahindra, J.C. Mahindra, Sir Sobha Singh, Yusuf Haroon and Fali Mehta. The company was formed to establish a comprehensive engineering factory in India which would serve the textile, sugar,

[205] *EE*, 28 November 1947.

[206] Minutes of Meetings of the Board of Directors of MMCL held on 31 October 1946 and 3 July 1947, Note on Agreement with John Inglis Co., 6 October 1947, Mahindra to Purshotamdas, 10 June 1947, *PT Papers*, fl. 378.

jute, paper and cement industries and also heavy industries like oil, mining, marine, public utilities, chemicals, etc.

The MMCL company entered into an agreement with H. & B. American Machine Co. in mid–1947. The American company agreed to supply the necessary drawings and data, process manuals and technical information and give the necessary patent rights and licences to enable MMCL to manufacture in India all types of spinning machinery produced by them. The American company would keep exchanging information on research and improvements in know-how and would *help the Indian company acquire the necessary machines, tools, dyes, accessories, etc.*, from its suppliers. Also, it was to collaborate with the Indian company in the building up of an export trade in textile machinery based upon manufacture in India.

In return for the technical services provided the American company was to receive neither any fixed cash payments nor a proportion of the shares. The foreign company was to have *no share of the equity*. They were to be compensated through the payment of *"royalty on the sales of the products to be manufactured by the Indian company*. The royalty [was] to vary on a slab basis from 5 per cent to 4 per cent and finally to 3 per cent." As the American company would receive no royalty till manufacturing started in India, which could take about three years, the Indian company would pay an advance royalty of $300,000 through quarterly payments of $25,000 over three years. The advance royalty would be deducted over time.

The American company also bound itself to supply the Indian company textile machinery for the first three years—the time required for the Indian company to get into production. The Agreement was to be for 20 years.

The MMCL also entered into an agreement with John Inglis Co. Ltd., Canada, in 1947. The foreign company was to act as technical adviser (or consulting engineering firm) to the Indian company and help the latter establish a general engineering manufacturing plant. It was to assist in obtaining licences and patent rights for MMCL to enable it to manufacture engineering products. (The agreement with H. & B. American Machine Company was also negotiated by John Inglis Co.) It was to assist in designing and setting up the manufacturing plant and also arrange to purchase on behalf of the Indian company machine tools, etc., required for the plant from Canada or the USA. Further, it was to arrange for the selection and training of key personnel in Canada or the US who were to come to India as employees of MMCL. It was also to arrange training in Canada or the USA of key personnel sent by the Indian company.

The MMCL was to compensate Inglis Co. for its services by allotting 10 per cent of the issued share capital to the latter. Mahindra and Mohammed Ltd., managing agents to MMCL, also entered into an agreement with John Inglis Co. whereby the latter was to act as general technical advisers. The managing agents were to pay the John Inglis Co. one-third of their managing agency commission earned from MMCL.

A cursory look at some of the main provisions in the various agreements and negotiations listed above clearly suggests that the Indian capitalists were under no circumstances willing to allow their foreign partners to get a controlling position in the companies floated in collaboration. Large sums may have been paid out to the foreign companies through royalties and cash compensation for various services rendered (such as supply of patent rights, highly sophisticated parts and technical assistance) but foreign equity participation was either prevented altogether or consistently kept as low as possible. These were collaborations to acquire high technology, not to bring in foreign funds through capital participation.

It seems that given these terms (i.e., Indian controlling interests and outright payments for goods and services received) the agreements can be seen primarily as attempts on the part of Indian capitalists to ensure a guaranteed supply of capital equipment and technology—both in tremendous short supply and both crucial to the Indian capitalist class if it was to grow given the backward state of the Indian economy. In other words, they represented a form of guaranteed imports of scarce items crucial to the Indian capitalist class just as they also to an extent guaranteed exports to the foreign partners. However, here too the capitalists tried not to forfeit their rights to shop around for cheaper and more efficient equipment and technology when they entered into an agreement with a foreign company. Both Walchand and Birla, for example, saw the danger of a tie-up with only one particular foreign company and deliberately spread their agreements with different companies from different countries, often stipulating in the agreement itself (see the Birla–Nuffield Agreement) that there would be no bar to their doing so.[207]

If the capitalists were forced to pay the foreign companies higher than market rates as compensation for services rendered or if they were forced to agree to certain stringent conditions regarding territory, distribution, etc., this was reflective of their weaker bargaining position due to the immediate compulsions put on them by the very backwardness of the Indian economy and the urgency to take what was available even at relatively higher costs. This aspect of the relationship between the Indian and foreign capitalists should be seen as the Indian capitalist class paying a higher price due to the weakness of the economic structure while simultaneously retaining its own control and independence, and not as this class agreeing to team up with foreign capital as junior partners.[208] While the

[207] Arun Bose has pointed out how certain Indian business groups linked up with both British and American firms "so as to play off one against the other" Bose, *Indo-British Big Business Deals*, p. 49. See also, G.D. Khanolkar, *Walchand Hirachand*, Bombay, 1969, pp. 6 and 8 for Walchand employing similar tactics.

[208] Hamza Alavi, it seems, fails to make this distinction, and see this "unequal partnership" as the negation of "Indian hegemony" or control. *New Left Review*, No. 37, May–June 1966,

former kind of unequal relationship was a result of the colonial structuring of the Indian economy with world capitalism, the latter would result if the Indian capitalist class was integrated with metropolitan capital in a subordinate position. The difference between these two types of unequal relationships is fundamental and bears emphasis. As Bipan Chandra has put it:[209]

> While the Indian capitalist class was not as a class integrated with British (or foreign) capital in a subordinate position, the economy of which it was a part was so, i.e., colonially integrated with and subordinated to world capitalism. *The weakness and constraints*, both economic and political, under which this class functioned *sprang from this fact and not from compradorism*.

Second, it is very significant that the Indian partners in these collaborations managed to put in clauses which would ensure greater independence to them in the future. First, the agreements were to be valid for a limited number of years. Second, it was stipulated that arrangements should be made to give technical training to more and more Indians which would facilitate a final takeover. Finally, the condition was laid down that, over time, an increasing proportion of the components which went into the final product were to be manufactured indigenously and not imported from the foreign company.

Thus, Premier Automobiles (Walchand in collaboration with a number of foreign companies), which started initially (mid-1947) as little more than an assembly plant, gradually introduced a comprehensive programme of indigenization. The indigenous content of the cars, trucks and buses manufactured by Premier Automobiles increased respectively, from 45 per cent, 52 per cent and 50 per cent in 1957 to 91 per cent, 93 per cent and 93 per cent in 1965 and to 98 per cent, 96 per cent and 96 per cent in 1967.[210]

Similarly, Hindustan Motors (Birla in collaboration with several foreign companies) also began (mid-1946) as an assembly plant but simultaneously

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p. 79. One of the major criticisms Arun Bose, *Indo-British Big Business Deals*, makes of these deals is that the Indian capitalists agreed to a slower rate of indigenous industrialization. True, but the other option before the Indian capitalist class, *within this structure*, was virtually no industrial growth at all. This class chose a slower rate of growth under its own control, no doubt making various concessions to foreign capital, the other alternatives being no growth (which would mean a still stronger hold of imperialism), faster growth as junior partners, i.e., offering a free hand to foreign capital, or the overthrow of the capitalist structure itself, an option certainly not open to capitalists.

[209] "Indian Capitalist Class and British Imperialism", *Indo-British Big Business Deals*, emphasis mine.

[210] Directors' Reports and Statements of Accounts, Premier Automobiles Ltd., 1946–1967, *WH Papers*, fl. 376; Lalchand's Note, 31 October 1947, *WH Papers*, fl. 567; and Khanolkar, *Walchand Hirachand*, p. 659. See also, *The Times of India*, 23 July 1978.

introduced a phased indigenization programme. By 1951 petrol engines were manufactured indigenously and by 1953 the same was true for diesel engines. In 1953 the Board of Directors of Hindustan Motors assured the Tariff Commission that they would be able to produce cars and trucks from wholly Indian material in three and four years' time respectively.[211] It was reported in 1978 that Hindustan Motors took "manufacture of components in hand in 1949 and the first partially manufactured cars in India were on the road soon after. Today its vehicles are 99 per cent indigenous".[212]

It would seem from this that the Indian capitalists' attempt was to enter and begin production in certain crucial and profitable sectors of the economy with foreign assistance, and then to gradually edge out foreign dependence from these sectors. The hope was to utilize foreign participation to start a process of rapid, self-sustained independent development, not to make some quick profits through collaboration or by setting up "assembly plants" in India. If the latter had been the sole motive, it could probably have been achieved better by giving a freer hand to foreign capital and accepting the position of junior partners.

IX. Concluding Remarks

It must be noted in conclusion that the Indian capitalists were willing to make concessions to foreign capital and enter into agreements with it only when assured of two overriding factors or assumptions, both of which were distinctly articulated by the *Eastern Economist* in the years approaching independence.

First, it was said, "the scale of industrialisation in the future should be really large, and that it should be done predominantly by Indians and under genuine Indian control and management",[213] so that the "volume of foreign minority participation in the total volume of investment is likely to be only a small fraction".[214] In other words, foreign capital, if it came in small doses and was fully regulated, i.e., "there was no direct or indirect control of foreign capital", then it was not seen as dangerous.[215]

Second, and this was crucial, the Indian capitalist class far from "look(ing) forward to an Indo-British share-out of political power... instead of independence",[216] assumed that the imminent independent national state

[211] Minutes of the Meetings of the Board of Directors, Hindustan Motors Ltd., 1945–1953, *PT Papers*, fl. 332.

[212] *The Times of India*, 23 July 1978.

[213] *EE*, 9 March 1945, pp. 281–82.

[214] *EE*, 14 February 1947, pp. 311–12.

[215] *EE*, 25 June 1948, pp. 1122–24; 23 November 1945, pp. 748–49.

[216] Arun Bose, *Indo-British Big Business Deals*, pp. 42–43.

would play a crucial role in preventing the foreign capital that was being allowed to come from exercising or establishing its domination over the economy. There was to be no fear of "foreign companies backed by incomparable financial and technical resources... smother(ing) the development of national concerns..., where the state was committed to encourage actively large scale economic development"; and "*the resources of the state (could) always be brought to bear against the foreign companies* and, of course, *in the last resort, full political power (could) be exercised*".[217] Even those sections of the capitalists (e.g., M.A. Master and the IMC), who had opposed any foreign participation and had expressed fears regarding the industrial delegation committing India to any such unfavourable deals, maintained this opposition only so long as India did not have "that national power and national influence of a free country governed by [a] national government... which alone can safeguard the interest of her people".[218]

It may be worthwhile noting here that relatively advanced countries like Britain and France invited large-scale foreign investments by the USA immediately after the Second World War. In fact Canada, Australia and even the United States in the nineteenth century developed initially with the aid of foreign capital. Even socialist countries like China have invited foreign capital and technology from advanced capitalist countries. Entry of foreign capital in these circumstances must be distinguished from foreign investment in colonial or semi-colonial conditions. Evidently, what is crucial is not whether foreign capital is welcomed or not, but the political and economic structure of the country inviting foreign capital. The latter would determine to what extent the recipient country can lay down terms and conditions under which foreign capital is to be permitted and ensure that it can absorb foreign capital without necessarily involving foreign domination.

It is significant that the Indian capitalist class in general preferred to wait before collaborating with foreign capital till, due to its own growth and the assured backing of the national state, it felt sure of its ability to absorb foreign capital without losing its independent base completely. That it was not simply imperialist pressure but the Indian capitalist class's own self-confidence which partially contributed to its willingness to

[217] *EE*, 23 November 1945, pp. 748–49. "The ultimates of economic power are rooted in politics", the *Eastern Economist* pointed out in another place. 20 August 1943, p. 475; And now that political power was coming, fear of foreign economic domination correspondingly declined. On this basis (and the assumption that it would come in small doses), it was suggested that the NPC need not continue to maintain such a strict attitude towards foreign capital, and should liberalize its entry on the basis of minority participation. *EE*, 23 November 1945, pp. 748–49.

[218] Press note of IMC, Bombay, 1 May 1945, *WH Papers*, fl. of LH, No. 143, pt. I. Similarly M.A. Master held that "foreign direct participation... can be contemplated only after the attainment of national government". *Hindustan Standard*, 23 May 1945.

collaborate with foreign capital especially after 1945 is also suggested by the fact that the class, which in the much more straitened conditions of colonial subjugation continued to oppose any participation by foreign capital vehemently, began to relax its attitude when direct imperialist domination was on its way out.

A few more points may be made here. First, the "softening" of the Indian capitalist class's attitude towards foreign capital, and their willingness to now "collaborate" with it, did not amount to the disappearance or resolution of its conflict with foreign capital as argued by some like Professor A.K. Bagchi.[219] As we have seen, various factors born of the backwardness of the Indian economy (not of the subordination of the class to foreign capital) forced the capitalists to seek the help of and even welcome foreign capital, though under certain strict conditions, to enable them to embark on the path of rapid independent development. On the other hand, it was precisely the attempt to develop independently within this framework which produced the conflict with foreign capital. As I have tried to show, the Indian capitalist class was aware of this conflict and was therefore at no stage willing to forfeit India's right to regulate, restrict and put conditions on foreign capital to ensure that it did not subordinate the Indian capitalist class to itself.

This duality of the class vis-à-vis foreign capital (i.e., the need to welcome as well as restrict it) was reflected in the programmes of the party that led the national movement (as seen in the reports of the National Planning Committee) and later of the national government after independence.

[219] Professor Bagchi in one place writes: "Indian capitalists emerged from world war II as a class with larger control over the existing means of production in the country. But they also emerged with a far lesser inhibition against collaboration with foreign firms, the *entry of foreign capital was welcomed*. Their class interest overcame their patriotic misgivings about domination by foreign capitalists *and no major conflict between the bigger Indian capitalists and foreign capitalists from advanced capitalist countries has surfaced till now.*" "Foreign capital and Economic Development in India", p. 61 (emphasis mine). Bagchi's major work, *Private Investment in India*, and numerous other works quoted in Chapter 1, clearly show that (*a*) the Indian capitalist class particularly after 1914 was beginning to find its feet economically and politically, and (*b*) there were periodic and large shifts towards increasing strength of Indian capital vis-à-vis foreign capital in areas of trade, industry, banking, etc. The level of development achieved by the Indian capitalists (mostly in competition with foreign capital) would not suggest any objective basis for a comprador capitalist class developing in India. In fact, the dominant thrust, as one would expect, was that of contradiction with Imperialism, making any parallel drawn with the Chinese bourgeoisie absolutely untenable. That the capitalists themselves were aware of this contradiction and consistently fought against Imperialist domination is something I have tried to show throughout this work. Second, if the class interest of the Indian capitalists both objectively and as they saw it, did not lie in foreign domination but in opposing it, then the formulation that whatever "patriotic misgivings" the Indian capitalists had about foreign domination were overcome by their class interest, seems to be wrong. In fact, the reverse was true—the Indian capitalist class's long-term class interest probably further buttressed if not created its "patriotic misgivings" about foreign domination.

So we find Nehru, the Prime Minister of the national government, who was earlier along with other left nationalists (represented in the National Planning Committee and other bodies) one of the sharpest critics of foreign capital, welcoming in 1949 (when faced with a severe economic crisis)[220] foreign capital on easier terms.[221] This raised an immediate alarm among Indian capitalists,[222] who, interestingly, were earlier trying to convince the National Planning Committee and the Planning Advisory Board that there was no need (in the context of imminent independence and other reasons discussed above) to adopt too hostile an attitude towards foreign capital and thus to scare it away.[223] It was an uneasy balance, and one finds the capitalists up in arms if the tilt went too far on either side.

However, it is precisely this failure to see this "duality" within the context of a "long-term contradiction" or opposition to foreign capital, faced both by the Indian capitalist class and the national state, that makes Hamza Alavi see the post-independence state as "mediating" between foreign and indigenous capital—(and) as the former was stronger, "it inevitably became dominant"[224]—i.e., when the state welcomed foreign capital it did so to suit the interests of foreign capital and when it put restrictions on it, it was under the pressure of Indian capital. In fact, the state both *opposed and welcomed* foreign capital in the interest of indigenous capital and of autonomous development. Neither the colonial state nor the post-colonial state mediated between foreign and indigenous capital. The former represented the interest of metropolitan capital[225] and the latter that of indigenous capital. The attitude of the post-colonial state towards foreign capital vacillated for the same reasons as did that of the capitalist class, namely

[220] Besides the problems discussed above, now was added partition—with Pakistan went some of the best foreign exchange earners, namely jute and cotton. See G.D. Birla in *EE*, 4 June 1948, pp. 1001–3. For a general description of the economic crisis immediately following independence see Kidron, *Foreign Investment in India*, p. 74.

[221] Statement made by the Prime Minister in the Constituent Assembly of India, 6 April 1949, *Fiscal Commission Report*, Vol. I, 1949–50, p. 416. The statement essentially pointed to the necessity of importing foreign capital and attempted to assure foreign capital that it would not be discriminated against vis-à-vis Indian capital and the existing restrictions on it would be relaxed.

[222] The FICCI criticized the PM's statement and emphasized how an "open door" policy towards foreign capital assuring it equality of treatment would adversely affect India in general and the growth of indigenous capital in particular. Evidence given by FICCI, *Fiscal Commission Report*, 1949–50, Vol. II, pp. 291–98. Similarly in response to the PM's statement the FICCI Executive Committee pointed out to the government that it was "necessary that foreign investments should be carefully regulated... thereby eliminating harmful competition". It also urged that "foreign capital should be *invited as a rule, either on government-to-government basis* or, in specific cases, on the basis of majority participation by Indians, both in regard to capital and management". FICCI Silver Jubilee Souvenir, pp. 164–65.

[223] See footnotes 181 and 217.

[224] Hamza Alavi, *New Left Review*, No. 37, May–June 1966, p. 80.

[225] Chandra, "Colonialism, Stages of Colonialism and the Colonial State".

the need to permit the entry of foreign capital given the structural dependence on world capitalism of an underdeveloped economy, and the simultaneous need to restrict and oppose foreign capital to prevent direct domination by it.

Second, another variant in interpreting this "duality", represented on the one hand by the rush for collaboration agreements and on the other by the simultaneous violent criticism of foreign capital's domination, has been to divide the capitalist class into two sections, one national and the other collaborationist or even comprador, the big capitalists, who in this period made most of the agreements, naturally failing into the latter category.[226] Here, as Prabhat Patnaik has very correctly argued, this paradox, where "the bourgeoisie... wishes to introduce independent development, yet it cannot do so without relying on metropolitan countries", must be seen as "a contradiction which underlies the position of the bourgeoisie as a whole" and not "identified as existing between sections of the bourgeoisie".[227] The constraints emerging from the "colonial structuring" of the Indian economy affected the Indian capitalist class as a whole and not one of its sections.

Lastly, while emphasizing the Indian capitalist class's continuous attempt to grow independently, one cannot ignore the potential danger of its being subordinated to metropolitan capital, given the structural dependence of backward (colonial or post-colonial) societies on world capitalism. A sharper conflict and a more stringent attitude towards foreign capital would not per se guarantee an independent self-sustained growth. A host of other economic and political conditions both at the national and international level would be necessary to overcome the integration with world capitalism in a structurally dependent fashion. In an effort to break this dependence the Indian capitalist class, like the Indian national movement and later the Indian national state, evolved a multi-pronged strategy. In the following chapter I shall discuss some aspects of this strategy.

[226] Note, for example, that Bagchi specifically mentions the "bigger Indian capitalists", who were seen to have no conflict with foreign capital in the post-war period. See footnote 219. There is absolutely no evidence to suggest that the bigger capitalists had any lesser conflict with foreign capital in our period. On the contrary, it was precisely the bigger capitalists who were trying to enter new sophisticated areas (such as shipping, automobiles, aviation, locomotives, heavy chemicals etc., entered by Walchand, Birla, Tata, Sri Ram, etc.), who were most afraid of foreign competition, and who fought bitterly for protection against it. These were the same people, though, who went in for collaborations.

[227] Prabhat Patnaik, "Imperialism and the Growth of Indian Capitalism" in Robin Blackburn, ed., *Explosion in a Subcontinent*, Harmondsworth, 1975, p. 74.

ELEVEN

Planning and Public Sector*

I. Introduction: Need for Planning

In the period 1929–47, i.e., in less than two decades, were capsuled two of the major events in the history of world capitalism, the Depression and the Second World War. In spite of their varying impact, not only between the advanced capitalist world and its colonial counterpart, but within the various sections of the advanced capitalist world itself, these events left a fundamental mark on the capitalist system as a whole. On the one hand, this period saw the third major technological breakthrough in world capitalism after the first and second industrial revolutions, on the other hand it was also a period of deep capitalist crisis, which lay bare its basic defects and contradictions. The need was now felt all over the capitalist world to strike out a new path, to create certain institutional changes which would enable stable capitalist development, and give it "a fresh lease of life".[1] The urgency for reform was greatly enhanced by the fact that the socialist alternative was now seen as a real threat.

It was in these conditions, that the ideas of planning and state management became current all over the world, particularly in the USA and the UK.[2] "Coordination, centralisation, balanced development, National action", etc., were now the watchwords.[3] In the wake of Keynesian economics a

* This chapter draws from two of my articles, "Indian Capitalist class and the Public Sector, 1930–47", *EPW*, Vol. 11.3, 1976, and "Indian Capitalist Class and Congress on National Planning and Public Sector 1930–47", *EPW*, Vol. 13.35, 1978. However, a major shift in interpretation has been made in this chapter. I would now describe my articles cited above as sectarian from the ultra-left point of view.

[1] P.A. Wadia and K.T. Merchant, *The Bombay Plan: A Criticism*, Bombay, 1945, p. 5 and *Our Economic Problem*, Bombay, 1943, p. 528.

[2] K.B. Krishna, *Plan for Economic Development of India, A Critical and Historical Survey*, 1945, p. 89.

[3] *Ibid*.

new role was defined for the state. Not only was the state now to have greater monetary and fiscal control but it was to participate directly in the production process in certain spheres. However, while private enterprise was to be controlled, its growth was not to be inhibited, in fact the whole point of the exercise was to create conditions for its orderly growth.

In a colonial country like India, the problem of developing capitalism "within the parameters of overall colonial relations", or of independent development after independence, was far more acute. It had to undergo a process of rapid development or else face the risk either of going under or slipping back into the position of a colonial satellite, or of a revolutionary overthrow of the system by shooting out of the world capitalist structure altogether. In colonial countries, the problem had another dimension. Here the situation was much more volatile and unstable, as here there was no long history of bourgeois growth, economic, political or cultural, strong enough to create a strong bourgeois hegemony over society which would be difficult to overthrow easily.

The Indian capitalist class, as I discussed above (see Chapter 1), underwent two rapid spurts of growth, during the Depression and the war, when the ties of the colonial economy with the metropolis were weakened. However, the capitalist class, which emerged much increased in strength and with large accumulations, both after the Depression and the wars, was nevertheless in a position of insecurity. First, past experience had taught them that these gains could be shortlived if metropolitan control was allowed to be fully reasserted; second, even if political independence was achieved from the metropolis, it was feared that indian capital was too weak to face foreign competition; and, finally, it was felt that in any case these gains by themselves were not sufficient to initiate a process of industrialization without planning and state help.[4]

Given these conditions, the need was felt in India to chalk out a plan of development with a vital role assigned to the state, in an attempt to bolster a backward, embryonic capitalism and equip it to loosen the fetters imposed on it by imperialism and the world capitalist structure. Various theories were put forward in this period, particularly in the 1940s, outlining the course Indian political economy should follow.[5]

[4] See, *Eastern Economist*, 13 October 1944, p. 413. Quoted in Kidron, *Foreign Investment in India*, p. 67 and also see, Wadia and Merchant, *The Bombay Plan*, p. 9.

[5] Though the need for planning was recognized by some very early, e.g., Sir M. Visveswarayya, talked of it in the 1920s (see Krishna, *Plan for Economic Development*, p. 12 and E.M.S. Namboodiripad, *Indian Planning in Crisis*, Trivandrum 1974); G.D. Birla in 1934 in "Indian Prosperity, Plea for Planning" (a speech delivered at FICCI annual session April 1934), the real spurt of ideas on planning came after the beginning of the Second World War, in the 1940s. For example, the National Planning Committee (NPC) set up in 1938, met right through the 1940s, and its final report was published in 1949, the *Bombay Plan* or the Tata–Birla Plan, Parts I & II, published in 1944 and 1945 respectively, Dalal's *People's Plan for Economic*

Immediately following the Great Depression, in the early 1930s itself, the Indian capitalists began to emphasize the need for economic planning and active state intervention. As the FICCI President, N.R. Sarkar, put it, "The days of undiluted laissez-faire are gone... for ever." He argued that for a "comparatively weak and economically young country like India" the importance of economic planning "for both defensive[6] and developmental purposes" could hardly be exaggerated.[7] Sarkar in a long statement urged the need for a comprehensive programme or plan of economic development which would cover agriculture, industry, particularly basic industry, power, banking, finance and so on. The plan was to be chalked out and coordinated by a high powered "National Planning Commission". "Sporadic assistance" to individual industries, that too in response to persistent agitation, would not do.[8] Planning was seen to be necessary for the full utilization of India's growth potential given her large national resources and other advantages.[9]

National planning (including planned "mass action") was urged by some in order to quickly raise the standard of living of the people which had reached its nadir during the Depression.[10] For others, the lesson furnished by the history of countries like Russia, eighteenth century France, post-war Germany and post-war Italy was said to be that "severe economic adversity" created "fertile soil" in which "seeds of revolution" could easily be sown. The Indian people were said to be nearing the limits of tolerance of extreme economic privation.[11] G.D. Birla, who made a plea for a bold planned initiative to increase the standard of living in India added a warning. He said that in attempting to "take a gigantic step to increase the country's wealth" there was a danger of "great disparity being created", an eventuality which had to be avoided. There was "no surer method of inviting Bolshevism, Communism or anarchism than to create an unhealthy disparity between the higher and the lower strata of society". A plan to succeed, Birla urged, had to guard against "unhealthy disparities". The "best safeguard" against this, Birla argued in 1934, "is provided by equitable taxation".[12] As we shall see, the capitalists were to argue in later years,

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Development of India, 1944, called the Royist Plan, the *Gandhian Plan* prepared by S.N. Agarwal, the Govt. Plan called *Statement of Government Industrial Policy*, April 1945, Conference on Industrial Development in India, December 1947, called the December Conference, *Statement of Industrial Policy*, April, 1948, *Congress Economic Programme*, January 1948, and so on.

[6] By "defensive" planning Sarkar meant the need to plan to counteract the policies of extreme economic nationalism that were adopted by the advanced countries in the 1930s.

[7] FICCI, *AR*, 1934, pp. 5, 22–23.

[8] N.R. Sarkar, FICCI, *AR*, 1934, pp. 3–67.

[9] *Ibid.*; and Kasturbhai Lalbhai, President, FICCI, *AR*, 1935, pp. 17–18.

[10] G.D. Birla, FICCI, *AR*, 1934, pp. 166–68.

[11] N.R. Sarkar, FICCI, *AR*, 1934, p. 67.

[12] G.D. Birla, FICCI, *AR*, 1934, pp. 176–77. Also see Ambalal Sarabhai's Note on the Karachi Resolution, 1931, *WH Papers*, fl. 8(2), where he makes similar arguments.

in the 1940s, for a public sector partially on grounds of achieving an equitable distribution.

The capitalists were also to make clear from the very beginning that though "the spectacular experiments made by Russia in planning" made planning almost "synonymous with the Russian form of economic experimentation", the "extreme type of State socialism and economic regimentation" that was "enforced in Russia" was not "acceptable or applicable to India". However, while rejecting "the communistic basis of economic planning as adopted by Russia" it was said to be "exceedingly unwise to offer opposition to planning itself". State planning was seen to be not only desirable but essential though the role of the state should not be so overbearing as to "supplant the individual". State initiative and private enterprise were to complement each other, to be coordinated, neither substituting the other.[13]

When, in 1931, the Karachi Resolution on fundamental rights committed the Congress to a programme for the future Swaraj Government, which, inter alia laid down that "The State shall own or control key industries and services, mineral resources, railways, waterways, shipping and other means of public transport",[14] it produced an immediate response from some capitalists. Ambalal Sarabhai wrote a draft note addressed to the Congress President saying "Nationalisation of key industries and services is not necessary, though Government control may be retained in the management of public utility companies...."[15] The FICCI president, N.R. Sarkar, however, anticipating many of the arguments made by the capitalists in the 1940s, accepted in 1934 that there were "certain industries which by the very nature of *capital required, risks involved* or *importance to national economy*" would "require direct state initiative", i.e., would have to be developed in the public sector. The examples he gave of such industries were "the construction of railways, big power plants, expensive housing schemes for labourers, etc." Other industries could generally be left to private enterprise with the state providing "assistance" by helping raise the necessary capital, through store purchase policy, fiscal policy, etc.[16]

In the 1940s, when a wide and intense debate occurred on the question of planning for India's future development, and the capitalists laid down their own detailed blue print, *the Bombay Plan*,[17] the role envisaged for the

[13] See, N.R. Sarkar, President, FICCI, *AR*, 1934, pp. 24–25.

[14] "Fundamental Rights and Duties and Economic Programme, as Resolved by the Karachi Congress and Subsequently Amplified by the AICC", Pamphlet, *WH Papers*, fl. 8(2).

[15] See *WH Papers*, fl. 8(2). Ambalal's draft was to be discussed by the FICCI Executive Committee. Significantly, the consideration of the draft kept getting postponed for several months till in January 1932 it was postponed sine die. *Ibid*.

[16] N.R. Sarkar, FICCI, *AR*, 1934, pp. 40–41.

[17] *A Plan of Economic Development for India*, pts I & II, Harmondworth, 1945. Signatories to this plan, which was popularly known as the *Bombay Plan* or the *Tata-Birla Plan*, were,

state in the process of production, i.e., the nature and role of the public sector, was one of the central issues that was discussed. In this chapter I shall discuss the Indian capitalists' vision of planning in India, particularly the role of the state envisaged by them. Since in the other chapters the capitalists' views on how the state was to use the instruments of economic policy (viz., fiscal and monetary policy) have been discussed, here the issue of the direct participation of the state in the production process, i.e., the rationale, role and size of the public sector, the issue of nationalization, etc., will be taken up in some detail. The changes in the capitalists' position on planning and particularly the public sector over time will be considered and their position will also be compared and contrasted with that of the socialists and left nationalists like Nehru. The proceedings of the Congress-sponsored NPC provide a good source for the views of both the capitalists and the left nationalists.[18] The question of public sector vs. private sector, and the question of nationalization loomed large in political and economic spheres in the 1940s. Special attention to these therefore seems to be in order.

II. Why Public Sector?

It is probably worth clarifying at the outset that the Indian capitalists as a whole never *totally* opposed state participation or ownership, on principle. It cannot be taken as assumed, as even an eminent contemporary observer like Nehru, who was very much in the mainstream of the movement for state planning, and was in close touch with the Indian capitalist leadership in this respect,[19] succumbed to some confusion on this issue. He tended to argue that as opposed to the "idealists and doctrinnaires, and socialists and near communists", "hard headed big business" was trying "to retain free enterprise and profit motive as far as possible".[20] The capitalist class was "apprehensive and critical", and joined the NPC "because it felt that it could look after its interests better from inside the committee than outside".[21] It is made to appear by some others as if the Indian capitalists were

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Purshotamdas Thakurdas, J.R.D. Tata, G.D. Birla, Ardeshir Dalal, Shri Ram, Kasturbhai Lalbhai, A.D. Shroff and John Mathai.

[18] The National Planning Committee produced a series of volumes numbering 27 as reports of sub-committees covering all areas of the Indian economy.

[19] Nehru was the Chairman and one of the main driving forces behind the National Planning Committee which was sponsored by the Indian National Congress. A cursory look at the NPC membership and the membership of its over 20 sub-committee will clearly show that the committee functioned with the close cooperation of the Indian capitalists.

[20] Jawaharlal Nehru, *The Discovery of India*, Bombay, 1961, pp. 395–96. The book was written in prison between 1942 and 1945.

[21] *Ibid*. This viewpoint of Nehru's was probably, partially due to the happenings in the NPC around 1940 when he had to deal with the most conservative section of the capitalists. We

forced all the way to agree to a compromise.[22] Another variant of the same kind of viewpoint was that the capitalists accepted state planning, including state control and state ownership, as a concession or a sacrifice for the general good of the people, in a fit of patriotism.[23] These viewpoints had the common shortcoming that they ignored the independent interest of the capitalist class in state planning and the public sector.[24] The capitalists actually had certain definite long-term objective advantages in developing the public sector, and they themselves were conscious of them and gave a host of reasons in defence of their position.[25]

First, a look at the set of more important factors, whether stated explicitly or deduced from overall policy, which explained the need of the state sector for the capitalist class. Then we will go on to see the numerous other reasons given by the Indian capitalists in defence of the state sector, which apparently had little to do directly with their class interests. We will also see why the capitalists generally harped on the latter factors.

We have seen earlier, in a general way, the inherent weakness of the Indian capitalist class in spite of the few spurts of growth it underwent. The capitalists were fully aware of their precarious position. They realized that such piece-meal sectoral spurts of growth were not enough and did not significantly reduce the chances of very easily slipping down the ladder. The need was for a comprehensive many-pronged attempt at development. The economy had to undergo significant growth in a large number of sectors *simultaneously*, if a *structural* break with the past was to be made. The *Bombay Plan* was one such attempt at comprehensive development, at modernizing an underdeveloped economy, not merely giving it a temporary spurt.[26]

The Indian capitalists were aware that "in executing (such) a comprehensive plan of economic development, especially in a country where the beginnings of such development have yet to be laid, the State should

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will see later that the dominant leadership of the capitalist class, as well as the conservative section as it developed over time, was much more radical and farsighted than Nehru here suggests.

[22] As Wadia and Merchant, *The Bombay Plan*, p. 17, put it: "The authors of the plan (Bombay Plan) are evidently orthodox believers in the creed of capitalism and laissez-faire, and they are reluctantly compelled to pay homage to a compromise formula, a via-media between state and private enterprise, they look upon state control as a temporary measure during the planning period."

[23] See, for example, Frank Moraes, *Sir Purshotamdas Thakurdas*, Bombay, 1957, pp. 195–96. Incidentally, this is a view the capitalists themselves were very keen to propagate.

[24] E.M.S. Namboodiripad misses this point in his book, *Indian Planning in Crisis*, p. 65.

[25] K.B. Krishna, one of the best contemporary Marxists, saw this point. He wrote: "Socialism is of several varieties and the businessmen have their variety of conceptions of socialism. Some of them express no fear of state control. *They even welcome it.*" *Plan for Economic Development of India*, p. 49.

[26] FICCI President, N.R. Sarkar had shown basically the same understanding in 1934. See footnote 8.

exercise…a considerable measure of intervention and control".[27] Walchand Hirachand, emphasizing the crucial role of the state for industrializing India said: "I quite realise that Government help and National Planning are the essential pre-requisites for this goal of industrial emancipation."[28] J.R.D. Tata clarified that "state control of industries and even ownership of some industries" was not to be considered from a "narrow capitalist point of view"; they were to be supported to the extent that they were "essential for the achievement of a rapid rise in general standard of living."[29] Better results, said the Bombay Plan, would be yielded by a combination of State and Private enterprise, doing what is "appropriate" for each, rather than by having only free enterprise.[30] It must be said to the credit of the dominant section of the Indian capitalists that they were capable of looking beyond their short-term class interests, and could visualize and plan an overall development of the economy which was crucial *for its own long-term growth*.

Why was state participation seen to be so important in a plan of comprehensive development? The following pages will throw light on this question.

The Indian capitalists were aware that high priority had to be given to core and basic heavy and capital goods industries for the working of such a plan.[31] As the *Bombay Plan* stated, "Nothing has more seriously hindered the development of India's industrial resources during the war than the absence of these basic industries, and we consider it essential that this lack should be remedied in *as short a time as possible*. Apart from its importance as a means of quickening the pace of industrial development in India, it [would] have the effect of ultimately *reducing our dependence on foreign countries* for the plant and machinery required by us and, consequently, of reducing our requirement of external finance."[32] Further, profitable investment of war accumulations made by the Indian capitalists and the satisfaction of "need of capital for self-expansion", required that heavy investments be made in social overheads and basic industries. As the capitalists themselves put it, "In carrying out the stages of development, we shall have to

[27] Thakurdas, *A Plan of Economic Development for India* (*Bombay Plan*), p. 90.

[28] Speech of Walchand Hirachand at the opening ceremony of the Sholapur Branch of *DENA* Bank, August 1943, *WH Papers*, fl. 327.

[29] *Bombay Chronicle*, 16 February 1944.

[30] *Bombay Plan*, p. 93.

[31] "It is an *important* part of our proposals regarding industrial development that in the initial stages attention should be directed *primarily* to the creation of industries for the production of power and capital goods." *Bombay Plan*, p. 9. Emphasis mine. G.L. Mehta, citing the authority of Edgar Snow pointed approvingly at the great emphasis given in the Soviet Union to the production of means of production or machines in the initial stages shifting to a concentration on "machines to make machines". Following such a path, he argued, would reduce India's dependence on imports for implementing its plan of industrial expansion. Speech at Meeting of Industrial Policy Committee, 5 October 1945, *PT Papers*, fl. 20.

[32] *Bombay Plan*, pp. 9–10 (emphasis mine).

pay special attention to basic industries.... On these industries will depend the *development* not only *of all other industries* but of the whole economic life of the country."[33] The *Bombay Plan* thus envisaged, inter alia, *a six times* increase in general industrial output at its completion, i.e., within 15 years.[34]

However, once the importance of developing public utilities, and heavy, core industries was recognized the next problem was how to do it in practice. These areas required massive long-term investments, often with low profits and that too accruing after a time lag. High rates of return on many of these investments were ruled out as the benefits accruing from them were mainly in the form of external economies. The Indian capitalists were incapable of raising finances of such magnitude, neither did they have such long-term holding power. The problem was therefore essentially of finance. This is where the state came in.

The Indian capitalists recognized that the "estimates of capital expenditure contained in the memorandum [*Bombay Plan*] [were] of such colossal dimensions that the whole scheme [would be] impracticable", if "orthodox financial concepts" were retained.[35] Therefore, financial orthodoxy was to give way to deficit financing, i.e., utilization of the inherent credit of the state. In fact, the heavy dependence of the Bombay Plan on deficit financing (about 33 per cent of the total outlay)[36] showed the crucial role the state was to play in meeting the heavy costs of the plan. It also showed the "capitalist" nature of the plan as this inflationary method of raising funds was weighted against the lower income groups.

However, "created money" itself could not solve the whole problem and the inflationary risks an excess of it would involve were known to the authors of the plan.[37] An attempt, therefore, had to be made, to mobilize the country's resources and channelize them properly. Here too the state was to play a crucial role. Dr Gyan Chand noted that "for the mobilisation of surplus resources and their most fruitful utilisation... *Public ownership of all credit and investment institutions of the country*... including insurance

[33] *Ibid.*, p. 58.

[34] *Ibid.*, p. 30.

[35] *Ibid.*, p. 11.

[36] *Ibid.*, pp. 55–56.

[37] John Mathai replying to the criticism of the Oxford statistician, Mr Schumacher, that the plan would lead to "wildest inflation" said that "the planners fully realised the inflationary possibilities of their proposals, which aimed at trebling the Indian national income and doubling the per-capita income" but they were "prepared to take the risk because they believed that the war-time experience of price controls showed that the inflation involved would be manageable". Mathai further added that "if the plan was financed by orthodox methods" the same increase in the living standards would take *"the better part of a century"*. Further, he pointed out that the annual expenditure in the initial period would be less than the annual war expenditure incurred in India. *The Hindustan Times*, 30 May 1945, in *WH Papers*, fl. 90(2).

companies", was essential.[38] The report of the sub-committee of the NPC on currency and banking (which had Manu Subedar[39] as its chairman) made much the same point. It laid down that the Reserve Bank of India should be nationalized, banking business of every description should be carried out under licence and general control of the Central Banking Authority and the state should exercise greater control over all insurance funds in order to ensure their maximum utilization for national purposes. The sub-committee also recommended elimination of private enterprise in the field though the decision on this aspect was postponed.[40]

Similarly, the Post War Economic Development Committee[41] (which did the basic drafting of the *Bombay Plan*) in a note prepared in July 1943 pointed out the difficulties faced by Indian industry in raising both fixed and working capital, a bottleneck which had to be removed if rapid industrialization was to take place. The Committee therefore recommended the following improvements to ease the situation—"(*a*) The establishment of Industrial Banks with the *state* either subscribing a part of the initial capital or guaranteeing a certain rate of interest in the initial stage. (*b*) The creation of a fund from annual contributions from Provincial Governments for direct financial aid to industry.... (*c*) The creation of a 'National Investment Board'."[42]

Though the crucial role of state finance in developing heavy industry and social overheads requiring large investments was recognized,[43] it was

[38] Summary of Dr Gyan Chand's lecture on *Bombay Plan*, Madon Memorial Lecture, Patna, November 1944. Both Purshotamdas Thakurdas and John Mathai thought that the content of the lecture was "well conceived and reasonable". *PT Papers*, fl. 291.

[39] Manu Subedar was recognized as the Indian capitalists' representative in the Central Assembly (see *Bombay Chronicle*, 25 April 1948) and was also an important member of the Indian Merchants' Chamber.

[40] See *National Planning Committee Report* (hereafter NPCR), Bombay, 1949, p. 158. The presence of capitalist members in this sub-committee to an extent seemed to tone down its programme. In an earlier memorandum in 1940 (see *PT Papers*, fl. 220, pt. II), the sub-committee recommended a much more radical line.

[41] The first meeting of the Post-War Economic Development Committee was held on 10 December 1942. All the signatories of the *Bombay Plan* (except A.R. Dalal) were present, Purshotamdas was unanimously elected chairman of the committee. The statistical department of Tata Sons (under the direction of Y.S. Pandit) was to undertake the investigations as desired by the committee. (John Mathai seemed to have done most of the initial drafting.) V.K.R.V. Rao and P.S. Lokanathan had also helped towards the final stages of the draft which later became the *Bombay Plan*. The cost of the investigations was to be borne in equal proportion by the Tatas on the one hand and the rest of the committee on the other, and the enquiry was to be completed by December 1945. Proceedings of the First Meeting, 11 December 1942, *PT Papers*, fl. 291(1).

[42] Draft on Industrial Finance, Post-War Economic Development Committee, 21 July 1943, *PT Papers*, fl. 291(1).

[43] For example, A.D. Shroff said: "The Government of the future will have to see that it creates the machinery and *supplies the resources* for the...execution of a well considered plan." *The Hindu*, 11 February 1944, emphasis mine.

not automatically assumed that the state should run all the industries it financed under its own ownership.[44] Though some state ownership was seen to be "necessarily involved in all cases where the state finances an enterprise which is important to public welfare or security",[45] the preference was for the government raising the requisite finances through state-owned investment corporations or otherwise, and then either loaning funds or subscribing to the capital of private industries, or guaranteeing interests on private investments.[46]

Whatever be the preferences, the necessity of state ownership of certain industries requiring large state-finances, especially in the "initial stages", was fully recognized. However, the hope still remained that, "if later on private finance is prepared to take over these industries, state ownership may be replaced by private ownership,... (though) the state should retain effective control over them".[47] This need for state participation in the initial stages in areas requiring large finances was probably one reason why the capitalist representatives in the NPC agreed to *state ownership or control* in key and heavy industries and public utilities like heavy electricals, power, fuel, and so on.[48]

Another reason, and probably one of the *most important* reasons why the Indian capitalists supported a public sector, was related to its desire to *free the economy from foreign domination* as far as possible.

[44] While emphasizing that credit and investment institutions were to be nationalized, Gyan Chand said: "But what about industrial undertaking themselves? The compromise solution would be to combine public and private enterprise...." Gyan Chand's lecture, Patna, 1944.

[45] *Bombay Plan*, p. 95.

[46] For example, A.D. Shroff and J.K. Mehta proposed that "an Industrial Development Fund should be constituted by contributions every year for a period of the next five years from every provincial government to the extent of 1% of their total annual revenue, and this fund should be utilised partly for direct financial assistance that may be rendered to industrial companies and partly to guarantee interests on capital issued by industrial companies". NPC Series, *Report of Sub-Committee on Industrial Finance*, p. 75. Also see, A.D. Shroff in Minutes of the NPC meetings held to discuss the Reports submitted by various sub-committees, 19 December 1938, *PT Papers*, fl. 223. The Indian Chamber of Commerce (Cal.) made the same point. "Private enterprise...should be helped with *loan of capital by the govt.*" (Emphasis mine.) Indian Chamber of Commerce to Govt. of India, Planning & Development Department, 12 May 1945, fl. of Lalchand Hirachand No. 143, pt. II, *WH Papers*.

[47] *Bombay Plan*, p. 95. The capitalists might have had the Japanese experience in mind, where the state with its infinitely greater resources undertook the development of heavy industries, and later on handed over running, profitable concerns to private capitalists at cheap rates.

[48] See *NPCR*, p. 134 for Engineering Industries, p. 137 for Chemical Industries and p. 159 for Power and Fuel. It is to be noted that almost all the sub-committees of the NPC had a substantial, at times predominant, representation of the capitalists, mostly with, interests in the respective areas. Often heated debates occurred within the NPC, with *conservative* capitalist members, due to various reasons of ideology as well as narrow sectional interests, opposing state *ownership*, except in very limited fields. However, in the final report (quoted above), a large degree of compromise seems to have been effected.

First, the state was to perform this role by developing basic industries. Lack of these industries was seen by the capitalists as one of the chief causes of dependence on foreign countries. "Till these industries are developed, we shall naturally be at the mercy of foreign countries. To shorten this period of dependence it is necessary to give priority to basic industries over other industries and thus to speed up development."[49] We have already seen above the capitalist class's inability to develop these industries on its own and therefore its necessary dependence on the state, the only other alternative being increasing dependence on foreign finance capital.

Second, to the extent that existing foreign investments in India controlled certain vital sectors of the economy it was seen as an extremely unhealthy growth. "Foreign investments in agricultural, mineral and industrial concerns have resulted in foreign control of India's economic and political life... warping and retarding national development."[50] Here again, the state was to come in to expel the existing foreign capital invested in key industries by acquiring or nationalizing them. "It is essential that foreign interests which now exercise a predominant control over certain vital industries in India, particularly those involving the utilisation of scarce natural resources, should be acquired by the state...."[51] The Federation, for example, consistently pressed for the government take-over of the British private company-owned railways.[52]

The state was to play another important role in this connection. In spite of the hope of reducing the requirements of foreign finance by developing basic industries indigenously, the Indian capitalists were aware that some amount of foreign capital was still necessary, "in view of India's vast capital requirements in the coming years".[53] The necessity of allowing foreign investments was felt, "particularly in the case of key industries involving

[49] *Bombay Plan*, p. 58.

[50] Mathai's draft in the Proceedings of the 6th session of the NPC, September 1945, in *NPCR*, pp. 233–37.

[51] *ibid.*, Resolutions drafted by A.D. Shroff and K.T. Shah, and passed by the NPC, *ibid.* See also Chapter 10.

[52] See, for example, Resolutions passed making such demands in FICCI, *AR*, 1937, 1938, FICCI to Government of India, Dept. of Communication, 30 November 1940; and FICCI Press Statements, 3 March 1941, FICCI, *Proc. of EC*, 1940. Also in FICCI, *Corresp.*, 1940, pp. 310–11; A.L. Ojha, President, FICCI, *AR*, 1941, pp. 16–17, etc. The capitalists who were opposed to the expansion of the state sector under the *colonial* government (see pp. 409ff.) nevertheless pressed for the state takeover of the British private company-managed railways. They did so on condition that the acquired Railways would be brought under the supervision of the Legislature. See FICCI to government of India, Dept. of Communications, 30 November 1940, FICCI, *Corresp.*, 1940, p. 311. Also, the ending of the contract period of these private companies provided an opportunity for ending foreign private control in these areas. If these contracts were renewed then even the future *independent* government would have found it difficult to throw out these foreign interests.

[53] Mathai in *NPCR*, pp. 233–37 and *Bombay Plan*, p. 53.

the use of secret processes which would not... be available to the country [unless] foreign participation in ownership and management [was] permitted".[54] The Indian capitalists were, on the other hand, fully aware of the dangers of creating foreign vested interests and were in no way willing to let foreign domination grow. The way out of the dilemma therefore was sought in the mediation of the state. Foreign capital was to be, preferably, allowed only "in the shape of loans or credit, *raised by or through the* state".[55] The state was thus to channelize the necessary foreign capital without allowing it to gain any control over the economy by utilizing its far stronger position than the one any Indian private enterprise could command.[56]

Finally, there was a third set of reasons for the development of the public sector, which reflected the capitalist class's interests, and which was repeatedly put forward by them. State ownership or control was seen as one means of reducing inequality, by reducing the "concentration of means of production", and by diffusing the financial burdens of the initial stages of development.[57] As the *Bombay Plan* put it, "control by the state, accompanied in appropriate cases by state ownership or management of public utilities, basic industries, etc., will also tend to diminish inequalities of income".[58] A more equitable distribution was seen to be in the short-term as well as long-term interests of the capitalist class.

First, it was felt that too much concentration would lead to a restriction of the domestic market as income would accrue mainly to a restricted few. In the words of the *Bombay Plan*, "Gross inequalities in income tend to retard the development of a country's economic resources. They prevent the needs of the vast majority of the population from exercising any influence on the volume of production, which has naturally to be restricted."[59] A more equitable distribution would increase the purchasing power of the masses of the country, giving a boost to industrial production. The *Bombay Plan* observed: "The large increase in production which is postulated in the plan will be difficult to achieve if the present disparities in income are allowed to persist. To this extent, therefore, *equitable distribution is necessarily implied in a plan for increased production.*"[60]

Second, the problem of poverty and inequality had another dimension, besides the purely humanitarian one. The Indian capitalists were afraid that too much of disparity and deprivation might lead to "social cleavages

[54] Mathai, in *NPCR*, pp. 233–37.

[55] Mathai in *NPCR*, pp. 236–37, emphasis mine.

[56] See Chapter 10 in this volume.

[57] *Bombay Plan*, pp. 68 and 90.

[58] *Ibid.*, p. 69.

[59] *Ibid.*, p. 67.

[60] *Ibid.*, p. 68, emphasis mine. However, no virtue was attached to equality, per se. In fact total abolition of inequalities was seen as undesirable, as it would remove the "necessary incentive for improvement in efficiency". *Ibid.*, p. 69.

and disharmony"[61] and strengthen the forces of the left. As G.D. Birla put it, "the fight against poverty in India is a fight against communism in the whole of Asia".[62]

These, in brief, were some of the important reasons why the capitalists supported and themselves put forward a plan in which the direct participation of the state was envisaged. However, the capitalists very consciously projected their ideas to the public in such a manner that these did not appear to reflect only their sectional interests. This aspect I shall discuss in the next section.

III. Capitalists Defend their Plan

The Indian capitalist class, partially due to the straitened objective situation in which it had to carve out its existence, was very self-conscious. It realized that given its precarious condition it had to continuously fight to retain its ideological hegemony over the people. The dominant and politically very mature section of the class was therefore very wary of openly giving out its narrow class interests as a justification for any of the programmes or policies it supported and endorsed. The *Indian Finance,* for example, warned in its editorial: "The emotional preference of large masses of men and the practical requirements of immense social tasks have an interplay, the dynamics of which nobody can foresee in detail. And if the Federation of Indian Chambers speaks... with *too obvious concern for its own class interest it will only condemn itself in the eyes of the public.*"[63] Similarly, G.D. Birla also advised other capitalists to let the politicians do the arguing in favour of the capitalists. The capitalists were to try to strengthen the hands of political leaders who shared common views with them. They themselves were not to be seen as trying to secure their narrow self-interest.[64]

Given this understanding, the capitalists always tried to give a much wider and subtler justification of their policies and principles, which were in fact vital for the very existence of the class itself. There was never a "vulgar" or narrow defence of issues as basic to the capitalist class as private

[61] *Ibid.*, p. 67.

[62] Birla, *The Path to Prosperity,* p. 562.

[63] *Indian Finance,* 11 March 1944, emphasis mine.

[64] G.D. Birla argued: "Its curious how we businessmen are so shortsighted. We all are against socialism and yet nothing is being done to carry on argumentative propaganda and even people like Vallabhbhai and Bhulabhai who are fighting against socialism are not helped. *It looks very crude for a man with property to say that he is...opposed to expropriation in the wider interest of the country...* let those who have given up property say what you want to say. If we can only strengthen their hands, we can help everyone." G.D. Birla to Walchand, 26 May 1936, *PT Papers,* fl. 177. See also Bipan Chandra, "Nehru and the Indian Capitalist Class—1936", in *Nationalism and Colonialism in Modern India.*

property, capitalism, and so on.[65] These issues were defended at a level of objective principle, generally purporting to show how they would primarily benefit the society as a whole and the ordinary people, benefitting the capitalist class only incidentally, if not involving a sacrifice on their part. The need for a subtle ideological defence of their programme was enhanced in the context of very live public reactions to the capitalists' policy statements. The capitalists were very sensitive to this public reaction[66] and took great pains to answer and refute public criticism.

It is interesting to note in this context how the capitalists defended their plan and the partial introduction of the public sector. A casual reading of the *Bombay Plan* would give the impression that the motive was to introduce what could be called a "welfare state" though within the capitalist framework. The public sector was throughout defended on grounds of increasing the standard of living of the masses, effecting an equitable distribution, public welfare and so on.[67] Further, it was emphasized that the capitalists "did not wish industrialists to be left unfettered to make money". In the larger interests of the country, the capitalists were willing to let even "individual liberty and freedom of enterprise" suffer a "temporary eclipse", as well as to compromise on "efficiency".[68]

Assertions of lack of self-interest began to get louder as public criticism began to intensify. Just after the publication of the *Bombay Plan*, numerous newspaper items appeared which accused the plan of being a plan of capitalists, of vested interests planning the future exploitation of the country with the help of a national government, of being a scheme to buttress the present capitalist order of society and of preventing a socialist order from

[65] In fact, particularly on such issues, much care was sought to be taken as they had an "emotional or sentimental aspect" for the public. *Indian Finance*, 11 March 1944.

[66] See, for example, F.E. James to J.R.D. Tata, 27 January 1944 and J.R.D. Tata to F.E. James, 4 February 1944, *PT Papers*, fl. 291(1).

[67] See *Bombay Plan*, pp. 9, 90, 95 and 68. Also, for example, J.R.D. Tata assured a gathering in a speech: "I can tell you that they (Bombay Plan authors) are not considering the problem of state control from a *narrow capitalist point of view*. To the extent that they find that state control of industries and even *ownership of some industries* are *essential* for the *achievement of a rapid rise in the general standard of living of the masses*, they will not hesitate to recommend it." *Bombay Chronicle*, 10 February 1944, emphasis mine. The *Bombay Plan* authors were warned after the publication of the first part that unless further elaboration was made on issues such as distribution and organization, a suspicion might develop that the plan by the capitalists was for the capitalists only. Gyan Chand's Lecture, Patna, 1944, *PT Papers*, fl. 291.

[68] See, Sir Ardeshir Dalal, "A Plan for Economic Development of India" (Pamphlet), February 1944, *PT Papers*, fl. 426. Also see *Bombay Plan*, p. 97. The Maharashtra Chambers of Commerce issued a pamphlet, 4 May 1945 saying, "It is perhaps an anachronism to say or suggest that except within certain limits there is *anything eternally sacrosanct about private property*. Where *the larger interest of the country* or community demand, private property may have to be subjected to certain measure of control." Emphasis mine. File of Lalchand Hirachand, fl. 143, pt. II, *WH Papers*.

taking its place.[69] Eminent contemporary economists brought out pamphlets in which the plan was portrayed as an attempt by the big capitalists to ensure their future rapid growth.[70] On the other hand, there was criticism from the extreme right-wing abroad which called the plan too socialistic, and termed J.R.D. Tata, the "Doyen of Indian communists"![71] While the latter kind of criticism did not much worry the capitalists they took great pains to answer the former kind.

A barrage of press conferences, memoranda and public statements clarifying the capitalist standpoint followed. G.D. Birla, who brilliantly fit the role of the public spokesman for the capitalists retorted that the plan was to be judged "on its merits", not on the "supposed caste of its authors". He asked "does a rose smell the less because it is grown by [a] Capitalist?" He argued that Indian business did not take positions on the basis of their sectional interests but took into account the larger societal or national interests. He gave the examples of the position taken by the capitalists on the Ratio question in the Fiscal Commission (1922) and the Acworth Committee (where in 1923 Purshotamdas had supported the nationalization of Indian railways). In particular, he referred to the Second Round Table Conference, where "when practically every section of the Indian society was planning for its sectional interest" the representatives of Indian business "stood for the joint interest of the country and refused to talk in terms of sectional interests".[72] "The Plan produced by the non-officials (Bombay Plan)" argued Birla, in the same strain, was an "expression of the people's will and resolve to end...poverty" in a country where despite abundant natural resources the people "were half-starved, ill-clothed and living the life virtually of a dog or cat", with an average annual income the same as "the expense of an average Englishman on cigarettes alone...."[73]

Given this situation, Birla continued, "it will be a great disservice to the country if a plan is made to make the rich richer and the poor poorer. After all, a plan has no meaning if it cannot give relief to the most depressed.... We are endeavouring a kind of state control...which...will... ensure a fair distribution of the country's products [and will] use rightly and to the best advantage India's great economic assets, not to increase the wealth of the

[69] See, for example, *Blitz*, 5 February 1944; *Dawn*, 21 April 1944; *Bombay Sentinel*, 3 January 1944; and *Indian Spectator*, 13 March 1944.

[70] Wadia and Merchant, *The Bombay Plan*. See also K.T. Shah quoted in *Indian Spectator*, 31 January 1944.

[71] A member of the US House of Representative quoted in *Bombay Chronicle*, 23 January 1944. The famous Indian communist Dange's reaction to the plan was interesting. He said that he wanted to popularize the plan showing its "patriotic outlook" answering those who thought otherwise. *The Hindustan Times*, 4 July 1944.

[72] G.D. Birla, FICCI, *AR*, 1944, pp. 33–50. This was edited and reproduced as a pamphlet, "The Plan Explained".

[73] *Ibid*.

few but to raise the many from poverty to security...."[74] Similarly, A.D. Shroff had assured the public that though the authors of the *Bombay Plan* "belong to the capitalist class they... will not hesitate to recommend such changes and modifications in the existing capitalist structure as...will help in the social objective of their plan...."[75]

It is not surprising therefore that the capitalists' plan (the Bombay Plan) did command some credibility with renowned economists including those clearly identified with the left. Maurice Dobb, for example, was reported to be quite enthusiastic about the plan and thought that the bold goals set by the plan were feasible and could not be dismissed as "Utopian".[76]

Finally, it is interesting to note how the capitalists tried to convince the public of their impartiality and objectivity and the lack of any *ideological content* in their arguments regarding both nationalization and private enterprise. As Shroff put it, "the authors of the plan have an open mind on the subject... they are not wedded to any particular theory or school of thought".[77] In a tone of crude liberalism, it was said that "no 'ism' is right or wrong, what matters is what is *practical* and would lead to development".[78] Birla also urged the people not to be "led away by principles of extreme capitalism or of extreme communism", but be "severely practical".[79] He added that personally if he was convinced that complete socialization or handing over of industries to the government would be in the interests of the people, he would not object to such a move.[80] It is on this ground of "pragmatism" and "good of the people" that G.D. Birla claimed to support both private and state enterprise. "I will choose private or state enterprise only on one basis, viz.,the good of India. I would allow private enterprise where it benefits and state enterprise where it is needed."[81]

An attempt was made to substitute "the ideology of state planning" for that of "anti-capitalism" or "socialism". A faith was sought to be created that the former, while retaining the virtues of capitalism, would imbibe

[74] *Ibid.*; see also, *Hindustan Times Weekly*, 5 March 1944. N.R. Sarkar also made the same points, FICCI, *AR*, 1944, p. 28.

[75] *The Hindu*, 11 February 1944.

[76] Dobb was particularly appreciative of the anti-feudal measures such as 'collective farming' envisaged in the plan. Vera Anstey on the other end of the spectrum was also reported to have welcomed the scheme. G.D.H. Cole was said to have been not unfriendly to the scheme though he wondered whether the rapid development envisaged would not put too great a strain on the standard of living in India in the initial years. Interviews reported in *The Hindu*, 10 April 1944, *PT Papers*, press clippings, fl. 21.

[77] *The Hindu*, 11 February 1944.

[78] Birla, "Plan Explained", emphasis mine. G.L. Mehta quipped in his inimitable style that all "isms" had now become "wasms". *Ananda Bazaar Patrika*, 6 February 1947, in *WH Papers*, fl. 110(1).

[79] *Hindustan Times Weekly*, 5 March 1944.

[80] Press Conference given by *Bombay Plan* authors, Reported in *Indian Spectator*, 13 March 1944.

[81] Birla, "Plan Explained".

aspects of the socialist structure and this "compromise between the two systems would... bring the greatest good to the greatest number".[82] The *Bombay Plan* declared that since "state intervention in various spheres of economic activity" had transformed many of the characteristic aspects of capitalism, "the distinction between capitalism and socialism [had] lost much of its significance from a practical standpoint".[83]

Jawaharlal Nehru and the left nationalists, the other major group which actively tried to promote the institutions of planning and the public sector through the National Planning Committee, however, had different ideas regarding what these institutions were meant to achieve. They saw them not as means of maintaining the capitalist system, but of its transformation towards socialism, though, because of various reasons, the former might have resulted in practice. This aspect we shall look into in the next section.

IV. Left Nationalist and Capitalist View: The Commonalities

The Indian capitalists and Jawaharlal Nehru, representing the left nationalist stand,[84] shared many objectives which they wished to achieve through planning and the use of the public sector. These common objectives related to the "national question", i.e., to issues which were concerned with achieving an independent anti-imperialist development. On the other hand, they had serious differences generally relating to the "social question", i.e., regarding which social or "class" perspective was to dominate the Indian planning exercise. Many of these differences were bridged over time by concessions made by both sides. Some basic differences, however, remained, as they could not be resolved without one or the other side partially or totally abandoning their own perspective.

First the common points. The most important common assumption was the recognition of the necessity of overthrowing colonialism and its replacement by an independent economic and political structure.

This point needs to be emphasized as now for far too many years a section of the Indian left has assumed that the Indian capitalists were *compradore* or were willing to "compromise" or "sell out" to imperialism. Even Professor A.K. Bagchi has lent credence to such views by arguing that the Indian capitalists emerged from the Second World War with "lesser inhibitions" against foreign capital, their "class interest" having overcome "their patriotic misgivings about domination by foreign capitalists". He virtually

[82] G.D. Birla in *Indian Spectator*, 13 March 1944.

[83] *Bombay Plan*, p. 92.

[84] For the left nationalist position I have basically used the stand taken by them during proceedings of the NPC and certain other speeches and writings of Jawaharlal Nehru.

sees the 1940s as a period of the ushering in of neo-colonialism with the acquiescence if not cooperation of not only the Indian capitalists but even the Indian intelligentsia. "Indian economists and politicians remain[ing] imprisoned by some of the basic presupposition of the British imperial system…." The planning efforts of the Congress through the "National Planning Committee", in which were represented "big business… along with socialists and 'near communists'", are cited as proof of this.[85]

In actuality, however, for not only the Indian nationalists (whether of the left or right hue) but also the Indian capitalists, one of the main objectives of the planning effort was to ensure rapid *independent* development, freeing the Indian economy of the constraints of colonial structuring and imperialist domination. In fact, the capitalists saw a national government and complete economic freedom as the basic *prerequisites* for any effort at planned development.

The authors of the *Bombay Plan* stated that "underlying [their] whole scheme" was the basic "political assumption" that "on termination of the war… a national government will come into existence at the centre which will be vested with full freedom in economic matters".[86] Moreover, most of the authors, through numerous press conferences, pamphlets, etc., continuously emphasized the view that "the success of the plan, first of all depended on a national government".[87]

The Federation of Indian Chambers of Commerce and Industry, undoubtedly the most representative mouth-piece of the Indian capitalist class, gave the assurance in a press communique in 1942 that though the "Indian commercial and industrial community" had "at times, not approved of all the methods and policies of certain political organisations, they have firmly believed that without the attainment of political freedom, economic advancement of the country is not feasible, and to this end they have always identified themselves with all endeavours to attain complete

[85] See Bagchi, *Private Investment in India* pp. 427–28 and 442; and Bagchi, "Foreign Capital and Economic Development in India" p. 61. This analysis naturally leads Bagchi to argue that "the independence of India in 1947 did not make a basic change in its relations with the advanced capitalist countries". *Ibid.*, See also, Chapters 1, 2 and 10.

[86] *Bombay Plan*, p. 8. See also *Proceedings of First Meeting of Post-War Economic Development Committee*, 11 December 1942, *PT Papers*, fl. 291(1).

[87] See Birla, "The Plan Explained". Also see, *The Times of India*, 20 January 1944 and *The Hindu*, 20 January 1944, reporting a press conference given by Sir Purshotamdas Thakurdas, J.R.D. Tata, A. Dalal, Kasturbhai Lalbhai and John Mathai, *Bombay Chronicle*, 24 March 1944, for Mathai's statement; *Free Press Journal*, 18 January 1945, quoted Purshotamdas and Mathai; *Bombay Chronicle*, 16 February 1944, quoted J.R.D. Tata and so on. As early as 1938, G.L. Mehta, in a conference of Industries Ministers of Provincial Governments, stated that "any schemes of comprehensive planning was… impossible unless the Central Government was responsible to the people". *WH Papers*, fl. 4(2). Similarly, Purshotamdas was to write to Nehru on 15 June 1939, that the recommendation of the NPC could be useful "only when the Central Legislature had control over the Executive Government at the Centre". *WH Papers*, fl. 48(2).

liberty for the country".[88] Here is the capitalist class, on the one hand, *pledging support to the Congress on the basic issues of anti-imperialism and national freedom,* and, on the other, pointing out its disagreement with the same regarding the method of achieving the same goal.[89] At the annual session of FICCI the capitalists while supporting the *Bombay Plan* insisted that the fundamental assumptions of the Plan were a national government and economic unity of India.[90]

Not only did the Indian capitalist class think that planning and the use of the public sector required a national government as a prerequisite, it was quite clearly aware that planning and state control under a *foreign government* would be very harmful. Padampat Singhania voiced this fear in a note sent to other capitalists like Tata, Purshotamdas, etc., regarding the *Bombay Plan* which envisaged a large degree of state participation and control. He argued that the plan was fine so long as it *assumed* a national government, but in case Britain was successful in preventing the coming of independence soon after the war, by exploiting communal and other differences, then the plan might be used as a stick with which to beat Indian interests. "Efforts were bound to be made by them to check the growth of Indian industries, and one of the efforts might be to bring or start key and capital industries under state control, which is virtually the control of British commercial interests.... Having realised the force of increasing Indian industrial and economic power the British government may adopt socialisation of industries as their next programme. I beg of you to consider whether it will not be walking into their parlour by supporting state control. We shall be giving them the weight of our views to be utilised by them against Indian industry by advocating socialisation of industries in any shape or form."[91] The capitalists' fear was not any different from that of the planning body of the congress, the NPC, which also said: "It would be absurd for the *present state* in India to interpret our recommendation in its own favour and thus add to its political and economic power."[92]

However, Sir Padampat's and the NPC's fears acquired a more concrete form once the Government Plan of 1945 was announced. This plan envisaged that 20 key industries should be placed under central control in the interest of coordinated development. It also laid down that, "apart from ordnance factories, public utilities and railways [already largely state owned and state operated], basic industries of national importance may be nationalised provided adequate private capital is not forthcoming, and it

[88] FICCI Press Communique, 13 September 1942.

[89] See Chapter 2 in this volume.

[90] See, for example, G.D. Birla, C.M. Kothari, Satya Pal Virmani, H.P. Bagaria, K.A. Hamid, A.D. Shroff, etc., FICCI, *AR,* 1944.

[91] Sir Padampat's note on the 15-year plan (*Bombay Plan*), 30 April 1944. *PT Papers,* fl. 291.

[92] *The Hindu,* 28 April 1945, emphasis mine. The NPC recommendations too included a large degree of state control and ownership.

is regarded as essential in the national interest to promote such industries".[93] The announcement of this plan immediately raised a hue and cry among the capitalists. They totally rejected such a plan, which almost in all the major aspects was quite similar to their own plan (*Bombay Plan*) except that it did not assume a national government. M.A. Master[94] (President of the Indian Chamber of Commerce), R.A. Poddar (President of the Marwari Chamber of Commerce),[95] the Indian Chamber of Commerce[96] (Calcutta), the Andhra Chamber of Commerce,[97] Manu Subedar,[98] Walchand Hirachand as well as most of the major Indian newspapers like *Bombay Chronicle, The Hindustan Times,*[99] *Hindustan Standard,*[100] and *Free Press Journal*[101] all in one voice condemned the Government Plan on the ground that "concentration of such wide powers as are outlined in the Statement in the hands of an irresponsible central government, constituted as the present, cannot be... in the larger interest of the people.... All these large changes in the policy of the country should only take place when India gets a national government responsible to the people of the country."[102] As G.L. Mehta, put it, "before we think of nationalising our industries, we have to think of nationalising our Government".[103] Sir Badridas Goenka, President of FICCI, while putting forward the same view, pointed to the crucial difference of the capitalists with the Government Plan: "The *fundamental issue* for India is not that of State versus private enterprise but of *paramountcy of national interests* and full development of the economic resources of the country for national benefit...."[104]

The point was not only that the present government could utilize the plan to enhance its existing control but also that it could be used to safeguard British interests after independence, which the farsighted capitalists saw was bound to come within a few years. Bhulabhai Desai voiced this fear of the capitalists when he said: "The Government constituted as at present can use such large powers [as envisaged in the Government Plan] to mortgage the future of the country and while quitting may leave a

[93] See, *Statement of Government's Industrial Policy,* 21 April 1945. Pamphlet issued by Planning and Development Department, Govt. of India, *WH Papers,* fl. 81, pt. I.

[94] *The Times of India,* 24 April 1945.

[95] *Bombay Chronicle,* 25 April 1945.

[96] Indian Chamber of Commerce, Calcutta to Government of India, Planning and Development Department, 12 May 1945, file of Lalchand Hirachand in *WH Papers,* fl. 143(2).

[97] *The Hindu,* 25 April 1945.

[98] *Bombay Chronicle,* 25 April 1945.

[99] *The Hindustan Times* was owned by the Birlas.

[100] *Hindustan Standard,* 26 April 1945.

[101] *Free Press Journal,* 25 April 1945.

[102] M.A. Master quoted in *The Times of India,* 24 April 1945.

[103] FICCI, *AR,* 1945, pp. 119–20.

[104] *FICCI Press Communique on Government Plan,* 28 April 1945, file of Lalchand Hirachand, No. 143 Part I, *WH Papers;* see also, *The Hindustan Times,* 1 April 1945, emphasis mine.

legacy which would be serious and onerous. It would increase the burden of the national government which will, then, have to plan on a loaded beginning."[105]

It seems apparently contradictory and needs some explanation that A.R. Dalal was, on the one hand, a signatory to the *Bombay Plan* and he himself categorically stated that "a national government at the Centre with full freedom in economic matters" was "absolutely essential for the carrying out of the plan",[106] and, on the other hand, he should have accepted the position of Planning and Development Member in the Viceroy's Executive Council and drafted the Government Plan,[107] which raised such apprehension among the capitalists.

Dalal's own reasoning was that while the objective was clearly independence for the successful execution of any plan, (as only a government which had the confidence of the people could impose burdens on them which was necessary for the developmental effort) India could not "stand still" till independence was achieved.[108] "India cannot allow economic events to wait upon political [events], and the economic planning of India must go on whether the Government enjoys full confidence of the people or not... India is already behind other countries in post war planning and cannot wait until a National Government came to power."[109]

Second, it is likely that Dalal treated the official plan as a sort of draft or precursor of the plan to be adopted by independent India. After all, the official plan was similar to the blue print adopted for post-independence development by the capitalists in the *Bombay Plan*. Even a radical nationalist like K.T. Shah seems to have interpreted it thus. One of his criticisms of the plan in fact was that it did not allow for sufficient state control. He ignored the issue of national government altogether, assuming that a "national government is coming and coming very soon after the war".[110]

[105] *The Hindu*, 26 April 1947. Bhulabhai Desai was one of the leaders of the right wing in the Congress. The Indian capitalists put a lot of faith in him and wanted to help people like him and Patel, because it was believed that they could protect the interests of the capitalist class best. See, Birla to Purshotamdas and Walchand, 26 May 1936, *PT Papers*, fl. 177. See also FICCI to Government of India, Planning and Development Dept., 22 December 1945, FICCI, *Corresp.*, 1945, pp. 127ff.

[106] Address delivered under auspices of the Indian Chamber of Commerce, Bengal National Chamber of Commerce, The Marwari Chamber of Commerce and the Muslim Chamber of Commerce, *The Times of India*, 28 February 1944, *PT Papers*, fl. 21.

[107] Dalal claimed to have drafted the plan himself without any interference from "Whitehall or London Industrialists", *The Hindustan Times*, 16 April 1945.

[108] *The Hindustan Times*, 30 May 1945. Also see FICCI, *AR*, 1945, p. 7.

[109] *The Hindu*, 30 May 1945. Dalal in numerous speeches and statements made after joining as Planning and Development Member, reiterated this position. See *The Hindustan Times*, 18 December 1944; *The Hindu*, 31 October 1944; *Bombay Chronicle*, 18 September 1944; *The Hindustan Times*, 16 May 1945; *Hindustan Standard*, 4 May 1945.

[110] *Free Press Journal*, 25 April 1945.

As it happened, in fact, the Government Plan of 1945 was used later, along with other documents and designs such as the NPC reports for providing guidelines to economic policy after independence.[111]

Third, it appears that the appointment of A.R. Dalal as Planning and Development Member and his being asked to produce the Government Plan was not aimed by the colonial authorities at acquiring greater control under the colonial government, (as the capitalists feared) or at pushing a strategy which was significantly different from the Bombay Plan. Seeing the general enthusiasm produced by the Bombay Plan, the Viceroy and the Secretary of State were agreed that they "must not get left behind" in "draw[ing] up a more entertaining and interesting picture of India's future", than "Birla or Roy [Royist Plan] or anybody else". Also, the move was aimed at taking "a lot of wind out of the sails of those who would try to make out a difference between an unenterprising government and a far-seeing body of industrialists". In a sense the government was trying to outdo the industrialists at their own game to gain some political advantage rather than substitute the capitalists' plan with an alternative more suited to colonial interests and the government.[112]

The attempt at neutralizing the opposition by Dalal's appointment as Planning and Development Member and his producing a Government Plan had mixed results and in any case did not last very long. Dalal's appointment was seen by the authorities as being welcomed by the Congress and to that extent leading to an improvement "from the administrative angle". However, it was also seen by the loyalist camp as the government "capitulating" to FICCI and the Congress. The leading British capitalist in India (and a leader of the European Group) E.C. Benthall, saw in Dalal's proposals (i.e., the Government Plan) state aid to floundering industries, Congress or FICCI control of key industries (obviously Benthall too saw the Plan in the context of independent India), and *elimination* of British influence in business in India within two or three decades, and so on. He felt that despite Churchill's protestations this Plan amounted to his "presiding at the liquidation of the British empire"![113]

Further, the Viceroy wrote to the Secretary of State that Dalal as Planning and Development Member was particularly concerned about the impact of "constitutional safeguards", provided to non-Indian business in India, on post-war planning. Dalal was reported to have the strong belief that the post-war industrial development was to be "financed and

[111] See opening speech of S.P. Mookerji, Minister of Industries and Supplies, at the Industries Conference, December 1947. File of Lalchand Hirachand, no. 165 in *WH Papers*.

[112] See Viceroy to Secretary of State, 23 March 1944, Secretary of State to Viceroy, 5 April 1944 and 25 May 1944, *L/PO*/472, IOR, London; Wavell to Amery, 9 May 1944 and 10 May 1944, Amery to Lascelles, Buckingham Palace, 15 May 1944, *L/PO*/198, IOR, London.

[113] See E.C. Benthall's Diaries, entries of 30 April 1944 and 23 May 1944, *Benthall Papers*, Box XII, South Asia Centre, Cambridge.

controlled by *Indians*", though the existing laws did not permit any "discrimination against British companies".[114] The India Office further felt that his plan pushed the interests of *Indian* capitalists a bit too hard.[115] Dalal's decision to resign his membership towards the end of 1945 was also seen to be partially related to the obdurate British stance on the question of "safeguards" for European enterprise in India, though to the great relief of the government he made no "political capital" out of his resignation.[116]

The point is perhaps made that Dalal's joining the government and his producing a Government Plan cannot be interpreted simply as a member of the capitalist class defecting to the other side or adopting a loyalist or anti-national posture. Purshotamdas, one of the loudest advocates among the capitalists of the necessity of a national government for any planned development, defended Dalal's accepting office saying that Dalal "felt and I and others share that view with him that he might be able to do some good in preparing the ground for a national government".[117] The capitalists did not have a unilinear strategy for achieving their goals, the adoption of one strategy did not necessarily mean the abandoning of the other. Joining or cooperating with the government on certain issues was not necessarily tantamount to abandoning anti-imperialism or even its dilution.[118]

To return to the common perspectives of the capitalists and the nationalist leadership (as reflected mainly in the Bombay Plan and the Proceedings of the National Planning Committee). Apart from the common understanding that a National Government was a prerequisite for any planned effort at development, there were remarkable similarities on issues like the role of foreign capital in a plan of economic development, though on occasion there were some differences of degree.[119] There was agreement on the following major strands regarding foreign capital:

(*a*) Foreign capital created vested interests inimical to the development of Indian economy and society. (*b*) Not only should any further influx of foreign capital be discouraged but attempts should be made to expel existing foreign capital in crucial sectors, through nationalization by an independent state. (*c*) Given the underdeveloped conditions of the Indian

[114] Viceroy to L.S. Amery, 2 January 1945, *L/PO*/473, IOR, London, see also Chapter 10.

[115] Indian Office Note, 25 December 1945, *L/PO*/198, IOR, London.

[116] *Ibid*. Wavell to Pethick Lawrence, Secretary of State, 9 December 1945; Pethick Lawrence to Lascelles, 1 January 1946, *L/PO*/198, IOR, London and Wavell to Pethick Lawrence, 5 November 1945, *L/PO*/473, IOR, London.

[117] Extracts from Press Conference on 17 January 1945, *PT Papers*, fl. 341. It is significant that the Policy Committee on Industry set up by Dalal, as Planning and Development Member (before the issue of the Government plan), included all the major Indian capitalists such as G.D. Birla, J.R.D. Tata, Shri Ram, Walchand, Kasturbhai, Purshotamdas, Singhania, Mathai and the President of FICCI. See *WH Papers*, fl. 81(1).

[118] For the capitalists' strategy of anti-imperialism see Chapter 2.

[119] The whole issue of foreign capital is discussed in detail in Chapter 10.

economy some foreign capital import was necessary. But this was to be done through the mediation of the state so as to utilize its far greater power of absorption without succumbing to domination. And, finally, (*d*) the national state should, by using its greater capacity in finance, try to develop indigenous basic industries so as to reduce dependence on foreign finance for production or import of capital goods.

There were some other broad areas of agreement between the capitalists and the NPC. For example, from the conservative capitalists to the radical nationalist leadership in the Congress, every one agreed that piecemeal, sporadic growth would not do any more and sustained, simultaneous advance in all sectors of the economy was essential. Both the *Bombay Plan* and the NPC recommendations were in fact attempts in this direction.[120]

As regards the stated aims of planning, there is again a striking similarity in both the plans. The NPC defined the aims of planning as: "(a) The attainment of National Self-Sufficiency for the country as a whole; without being involved as the result of such efforts, in the whirlpool of Economic Imperialism. (b) The doubling of the present standard of living amongst the people of India, within a prescribed limit, say ten years."[121] The aim set out by the Bombay Plan was almost identical. Both the plans attempted a strategy of independent development in a backward economy, the entire process being condensed into a short period. The two plans also showed awareness of the social costs involved in such an attempt and, therefore, tried to compensate the people for the burden they would have to bear by suggesting elaborate measures of social welfare.

Another important common point was the clear-cut anti-feudal stance adopted by the capitalists (on almost the same lines as argued by the left nationalists) in their plan to promote agricultural development. For example, the capitalists agreed to the abolition of intermediaries between the state and cultivator, i.e., the *taluqdars* and *zamindars*, to cooperativization not only for marketing and credit but also for production, to experiments with collectivization "on culturable wastelands and other lands acquired by the state", to progressive agricultural income tax, etc.[122]

Lastly, it was repeatedly stated that planning to be successful had to be centralized at an all-India level. As G.L. Mehta put it, "the maintenance of

[120] As the NPC put it, "The essence of planning is a simultaneous advance on all fronts and in all sectors". K.T. Shah, *National Planning Principle and Administration*, NPC Series, Vol. 25, p. 13. Using almost identical words the *Bombay Plan* authors at a conference with the Post-War Reconstruction Committee, 20 April 1944, underlined that "a simultaneous 'attack' should be made on all subjects and aspects of developments". *PT Papers*, fl. 260.

[121] *National Planning Principles and Administration*, NPC Series, Vol. 25, pp. 13–14.

[122] See the Minutes of the meetings of the NPC, 29 June 1940 and 3 September 1940, *WH Papers*, fl. 48. At these meetings, chaired by Jawaharlal Nehru and attended by amongst others, Ambalal Sarabhai, the recommendations of the Land Policy Sub-Committee were discussed. See also, Chapter 2.

the economic unity of India is an essential condition of any comprehensive and effective planning". However, a "common economic policy" for India was seen to be "in *no way incompatible* with regional planning and decentralisation...." On the contrary, the effort was to be to "prevent and cure economic ill-balance in the country for social as well as strategic reasons". Regional planning was however not to "involve the creation of economic *Zollvereins* which would tend to hinder trade and industry and retard economic development". G.L. Mehta argued that in fact "the answer to the fissiparous and disintegrating tendencies of sectional interests, territorial and communal, is a comprehensive plan for economic reconstruction inspired by a *national* purpose and implemented by a *national* administration".[123] Jawaharlal Nehru articulated almost the same goals and voiced the same fears and envisaged a similar positive relationship between centralized national planning and regional development in his speech at the annual meeting of FICCI in March 1947.[124]

V. Left Nationalist and Capitalist View: The Differences

Coming to the *differences* between the left nationalist perspective represented by Nehru and the capitalist class, they related to the question of which class perspective was to dominate the planning exercise. Many differences relating to the role of the state, particularly the nature and extent of the public sector, were over time narrowed down with both sides making concessions. Some basic differences were however irresolvable, though the two sides, despite constant tension and ideological struggle, never broke into open hostility. Most important, the capitalists did not abandon the side of nationalism and compromise with imperialism as a result of the leftist threat posed by Nehru and the left nationalists.

Nehru's initial position brooked little compromise. Around the mid-1930s he was in his most "radical" phase being closest then to a particular type of inflexible and sectarian Marxism which has been best described recently by Professor Bipan Chandra, in his Kosambi Memorial Lectures in 1989, as "Stalin Marxism".[125] His model of bringing about social change or socialism was not to be diverted by the bogey of "socialist coercion" or "totalitarianism". The slogan of "democratic freedom" was seen as only a mechanism to ensure private property and other privileges of the ruling classes. Nehru now talked of "the ending of private property" and the abolition of the "present profit system", and had no "illusion" that it could

[123] See, G.L. Mehta in *Hindustan Standard*, 16 September 1945; and the *Amrita Bazar Patrika*, 16 April 1946, *WH Papers*, fl. 100, emphasis mine.

[124] See FICCI, *AR*, 1947, pp. 16–27.

[125] Chandra, *Jawaharlal Nehru in Historical Perspective*, p. 9.

be achieved in any other way but by exercising "effective pressure amounting to coercion".[126]

This was the phase when a section of the capitalist class was sufficiently alarmed to raise an open revolt against Nehru. The more far-sighted capitalists like G.D. Birla were able to stem this tendency pursuading them against an open confrontation. Instead, Birla suggested a strategy of strengthening the right wing of the Congress, of waging an ideological battle against the left and so on.[127]

However, Nehru was among the first in the world to abandon the "Stalin Marxist" paradigm to see the absolute value of democracy, to recognize the centrality of democracy to socialism[128] and to the struggle for socialism. With his earlier perspective there could be no National Planning Committee, no dialogue leave alone cooperation with those who did not share his class perspective. With the new perspective of initiating a process of progress towards socialist transformation within the democratic framework rather than that of one shot insurrectionary overthrow of the existing structure, and in the context of a broad-based anti-imperialist struggle, such cooperation was very much on the cards.

The new perspective in the context of planning was evident when Nehru wrote in the 1940s (again from prison), "it became clear to me that our plan [NPC], as it developed, was inevitably leading us *towards establishing some of the fundamentals of the socialist structure*. It was limiting the *acquisitive factor* in society.... It was based on planning for the benefit of the *common man*, raising his standards greatly, giving him opportunities of growth.... *And all this was to be attempted in the context of democratic freedom* and with a large measure of *cooperation of some at least of the groups* who were normally *opposed to socialist doctrine*. That cooperation seemed to me worthwhile even if it involved *toning down* or weakening the plan in some respects."[129] Evident here is the notion of taking *steps* in the socialist direction (rather than establishing of socialism by the immediate *overthrow* of the existing structure), and of doing so within the democratic framework, accepting the logic of adopting such a path by taking steps including partial compromises which made it possible to take along a wide section of society.

Even while functioning with this new perspective the initial position taken by Nehru and the left nationalists regarding the nature and extent of

[126] See Jawaharlal Nehru, *An Autobiography*, New Delhi, 1962, pp. 543–44. The autobiography was written in prison between June 1934 and February 1935. See also Nehru's Presidential Address to the Lucknow Congress, 1936; and Bipan Chandra, "Jawaharlal Nehru and the Indian Capitalist Class, 1936", in *Nationalism and Colonialism in Modern India*.

[127] See *Ibid.*; and Chapter 2.

[128] See Chandra, *Jawaharlal Nehru in Historical Perspective*, pp. 9ff.

[129] See Nehru, *The Discovery of India*, p. 400, emphasis mine.

the public sector was too radical for the capitalists. Briefly, the position taken was the following:

First, it was stated that the principle of state ownership and control was to be applicable not only to defence industries, key industries and public utilities but also "to other large scale industries and enterprises which are likely to be *monopolistic* in character, or even to *other large scale industries*".[130] K.T. Shah, unhampered by the restrictions faced by Nehru (who as Chairman of NPC had accepted the role of mediating between various interests, including the most conservative, and arriving at a minimum consensus, thus being forced to somewhat dilute his programme) was, however, much more forthright.[131] He quite categorically stated that: "All key industries must be state-owned and state-managed. The profit motive must be summarily and completely excluded from... every such industry."[132] A number of factors also "ruled out" the possibility of these industries "being merely controlled".[133] In fact, private enterprise in existing key industries, he suggested, should be bought out with "just compensation".[134] He went on to argue for bringing within the state's direct control almost all important large-scale industries, particularly those that tended to get monopolistic. He said: "Formal or virtual monopolies under private enterprise should be strictly prohibited... in the production and supply of materials needed for national defence, public utilities, and social amenities. The moment any such enterprise evinces signs of getting under monopolistic organisations, the state should... acquire the same...."[135] Besides this, he also argued that "*new industries* suitable only for large-scale work by power-driven machinery and for standardised mass production...must be *established and conducted as public enterprise*".[136]

The second distinctive feature of the initial left nationalist programme was its policy of *progressive nationalization* of existing industries.[137] This, as

[130] See the Chairman's (Nehru) address to the 3rd session of NPC, 1 May 1940, *NPCR*, p. 124; and the Chairman's memorandum dated 4 June 1939, *NPCR*, p. 41, emphasis mine.

[131] There is little doubt however, that K.T. Shah had Nehru's tacit support in the positions taken by him, though the latter often found it "impractical" to insist on going the whole hog, being satisfied if a partial acceptance of the programme could be got even from the conservative section of the NPC.

[132] K.T. Shah, *National Planning Principles and Administration* (NPPA), NPC series, Bombay, p. 61.

[133] Report of the Sub-Committee of Public Finance, of the NPC (K.T. Shah was the Chairman of the Sub-Committee). *NPCR*, p. 189. Note (*a*) A.D. Shroff had written a minute of dissent to the recommendations of this sub-committee and (*b*) K.T. Shah was aware that the recommendations of this sub-committee went beyond the general principles so far accepted by the NPC.

[134] Shah, *NPPA*, p. 61.

[135] *Ibid.*, p. 66.

[136] *Ibid.*, p. 55.

[137] See *Ibid.*, p. 51; and *NPCR*, pp. 188–89.

we shall see below, was a suggestion which probably irked the Indian capitalists more than anything else.

Finally, in contrast to the capitalist viewpoint, the left nationalists argued for state ownership on grounds of principle and not because private capital was not forthcoming. As K.T. Shah put it, "industries are nationalised, not because private capital is unwilling to take them up, but because they are of such supreme national importance that they cannot be left to private hands consistent with national interests".[138]

As compared to the left nationalist viewpoint, the initial reaction of a section of the Indian capitalists posed a contrast. Leave alone accepting the standpoint argued by K.T. Shah, the capitalists refused to endorse even the relatively moderate stand suggested by Nehru as a general policy of the NPC. For example, A.D. Shroff himself and the interim report of the NPC sub-committee on Industrial Finance of which he was the Chairman pointed out that they could not "endorse the recommendation that state should own and control all defence industries and public utilities and that key industries may be state-owned or state-controlled".[139] In fact, Shroff argued that the state should stick to only social services while all industrial development should be left to private enterprise. The rather weak reasoning given for it was that "the combined burden of financing social services [like housing, insurance, education, medical relief] and the owning of industries by the state would be beyond the means of the state".[140]

Thus, at this stage, almost any intervention by the state in the sphere of production in the form of state-owned enterprises was opposed by a section of the capitalists. This, however, was the conservative capitalist standpoint before and up to 1940. Over the next few years, under the able persuasion of capitalist leaders like G.D. Birla and Purshotamdas as well as of the left represented by Nehru this position was abandoned in favour of a maturer and more farsighted position. Also, the dominant section of the capitalists, with FICCI as their mouthpiece, did not take a position as sharply opposed to the left nationalists though they too had major differences which they voiced quite unequivocally.

Before going into this aspect it is worth noting that the only sphere where *no section* of the capitalist class opposed *nationalization* was where

[138] *Free Press Journal*, 25 April 1945.

[139] See *Report of Sub-Committee on Industrial Finance*, NPC Series, 1940, pp. 65 and 102; and interim Report on the sub-committee on Industrial Finance, 18 June 1940, *PT Papers*, fl. 242.

[140] *Report of Sub-Committee on Industrial Finance*, p. 105. This was said almost in the same breath with demands made by this sub-committee (p. 75) where the state was urged not only to guarantee interests on capital issued by industrial companies, but also to provide direct financial assistance to industrial companies. In fact, as we saw above, one of the main reasons why the capitalists on the whole supported the public sector was that they wanted the state to use the financial power and resources that it had (which the private capitalists did not have) to lay the infrastructure for rapid economic development.

foreign capital was concerned. For example, while there was no opposition to nationalization of foreign insurance companies, foreign dominated banks, etc., the same policy was opposed when it came to indigenous companies operating in these areas.[141] The conservatism of a section of the capitalist class was reflected not in a difference in attitude towards imperialism but in the "social" aspect, in their unwillingness to go all the way with some of the radical steps envisaged by the forthcoming national government regarding domestic policy.

The criticism of the left nationalist position made by the capitalist class in general, and not only its most conservative section, was on the following lines. The capitalists generally took strong objection to the idea of nationalization of certain basic industries on "principle" and not because private capital was not forthcoming in these areas. The capitalists consistently took the stand that, "while recognising the necessity of nationalisation in respect of defence and certain basic industries.... When promotion of such industry is regarded as essential in the national interest", such a step was to be taken only "when private capital was not forthcoming",[142] and not in response to any "autonomous" principle of nationalization. It was further argued that "there is no reason to suppose that private capital would not be forthcoming for [that] purpose. On the other hand we are convinced that it is the duty of the Government to create conditions favourable for the development of such industries under private aegis...."[143]

The *Eastern Economist* took a similar position: "the question of nationalisation should be settled not on the basis of ideological principles, but on the merits of each individual case".[144] The President of the Indian Merchants' Chamber, citing the support of G.D.H. Cole, "a fervent advocate of Socialism", argued that no *rigid* line should be drawn regarding which industries were to be under the public sector at which time. He said that depending on the "requirement of the country" both systems should be allowed to operate and it might even be found desirable to hand back to private enterprise industries which had been socialized earlier.[145]

It was argued with a lot of vehemence that the state sector was not to emerge as a competitor to already existing private enterprise, nor was it to compete with or in any way act as a substitute for private capital. In

[141] See *NPCR*, pp. 158ff, 236–37 and *PT Papers*, fl. 222 and fl. 233(2).

[142] FICCI Resolution, 1947, *PT Papers*, fl. 336. See also FICCI to Government of India, Planning and Development Department, 22 December 1945, FICCI, *Corresp.*, 1945, pp. 127–33; M.A. Master, 26 April 1945, *WH Papers*, fl. of Lalchand, 143(2); and Indian Chamber of Commerce to Government of India, Planning and Development Department, 12 May 1945, *ibid*.

[143] M.A. Master, 26 April 1945 and Indian Chamber of Commerce, 12 May 1945, *ibid*.

[144] *EE*, 14 June 1946.

[145] Mahomed Husein Hashmi Premji at second quarterly general meeting of IMC, 7 August 1946, *WH Papers*, fl. 92(2).

industries where both state and private enterprise had to come in, it was suggested that "they must not compete and a *line of demarcation* of their provinces seems necessary".[146]

Given this standpoint of the capitalists, the left nationalist urgings for progressive nationalization of all existing as well as emerging monopolies were naturally greatly resented. Even G.D. Birla reacted violently to such a formulation. Discarding his usual smoothness, he argued that a state monopoly was as bad as a private monopoly, because both challenge "the greatest virtue of the capitalist system.... Free enterprise and free competition."[147] In fact a state monopoly, created by taking over an existing efficient firm, was much worse, as it would be inexperienced and inefficient.[148] To sum up: what irked the capitalists most was not so much the partial existence of the public sector as the insecurity created by a policy of gradual, progressive nationalization.[149]

The criticism made by the capitalists of the left nationalist programme may give the impression that they were in total opposition to, or at least unwillingly accepted, the institution of the public sector. This, however, is not true. In contrast to the initial position of the capitalists, generally the capitalists did allow for and in fact welcomed the partial introduction of the public sector for a variety of reasons which I have discussed above.

Much of the opposition to and criticism of the notion of the public sector, and long treaties in defence of private enterprise, etc., were made to prevent the public sector from going beyond limits, i.e., acquiring too autonomous a stature. After all, the capitalist motive in developing the public sector was to enable further rapid development of the private sector, not at all to create a competitor.

The system of state ownership and control suggested by the capitalists themselves was very briefly the following:[150] In the words of the *Bombay Plan*, "State ownership is necessarily involved in all cases where the State finances an enterprise which is important to public welfare or security. State ownership will also arise where in the public interest it is necessary for the state to control an industry, but the circumstances of the industry

[146] M.A. Master, 26 April 1945, fl. of Lalchand, 143(2), *WH Papers; Silver Jubilee Souvenir*, FICCI, 1927–51, p. 127; *Bombay Plan*, p. 93; Pamphlet issued by Maharashtra Chamber of Commerce, 4 May 1945, *WH Papers*, fl. of Lalchand, 143 Part II; and Walchand Hirachand in *Bombay Chronicle*, 20 October 1942 and *Free Press Journal*, November 1947, *WH Papers*, fl. 327. See also D.P. Khaitan's note to Purshotamdas, Birla, etc., of 1 June 1945, *PT Papers*, fl. 356.

[147] Birla, *Path to Prosperity*, p. 88.

[148] *Ibid.*

[149] Report of the sub-committee on Industrial Finance (NPC series), p. 67. The same fear of progressive nationalization was carried over even many years after independence. See "Bombay Plan and Other Essays", the 2nd A.D. Shroff Memorial Lecture, 1968.

[150] The standpoint given below is taken almost entirely from the *Bombay Plan*, as here it is stated in the most compact manner and has the consensus of a large cross-section of the capitalists.

are such that control is ineffective unless it is based on state ownership."[151] In the former class were included "new industries" which required state finance in the initial stages, and it was laid down that state ownership may be replaced by private ownership with state control if private enterprise was prepared to take over. In the second group were included defence industries and vital public utilities like post and telegraphs, and here state ownership was admittedly a permanent feature.[152] As for the rest of the enterprises such as those partially or wholly owned by the state, basic industries, monopolies, industries using or producing scarce natural resources or receiving state aid, state control was thought to be adequate.[153] The controls envisaged were, however, very far-reaching, bringing within the purview of state control production, distribution, consumption, investment, foreign trade and exchange and wages and working conditions.[154]

It was further pointed out that "from the point of view of maximum social welfare, state control appears to be more important than ownership and management".[155] This preference for state control over state ownership was justified on the ground that "mobilisation of all the available means of production and their direction towards socially desirable ends" through control over "the use and disposal of economic resources" made it unnecessary for the "state to secure ownership or management of economic activity" over a wide field.[156] Further, it was suggested that it was not necessary for all state enterprises to be state managed as well. Management could be left to private enterprise if state management also was not necessary to safeguard public interest.[157]

Where, it was said, in spite of the above guidelines no clear-cut decision whether an enterprise was to be state or privately owned could be taken, a policy of "compromise" was to be followed. Where such difficulties arose (public utilities of a monopolistic character and industries for which the government was the principal consumer being inter alia some such likely examples), it was suggested that there was no need to nationalize such a branch of production completely, rather both state and private enterprise were to be allowed to grow simultaneously.[158]

As is seen above, by 1944–45 the Indian capitalists on the whole (as reflected in the *Bombay Plan*) did allow for complete state ownership in defence industries, certain vital public utilities, new industries financed by the state and partial state ownership in certain other areas. This was a

[151] *Bombay Plan*, p. 95.
[152] *Ibid.*, pp. 95–96.
[153] *Ibid.*, p. 96.
[154] *Ibid.*, p. 99.
[155] *Ibid.*, p. 94.
[156] *Ibid.*, pp. 94–95.
[157] *Ibid.*, pp. 96–97; and Birla, *Path to Prosperity*, p. 120.
[158] *Bombay Plan*, p. 98.

radical departure from the earlier standpoint of some capitalists where the state's role was relegated only to that of social services. By the time the *Bombay Plan* came out a wide consensus had been reached within the capitalist class which now adopted a general position which was closer to that of the left nationalists. Even A.D. Shroff, who in 1940 had most strongly argued that the state should not interfere in production, now not only signed the *Bombay Plan* but "clearly visualised the *necessity* of the state itself owning the means of production in certain selected branches of development, in which the urgency or extent of national requirements justify such a course."[159]

At the other end of the scale, the left nationalists also did not insist on a position much different from that laid down by the capitalists in the *Bombay Plan* regarding the system of state ownership and control that was to be adopted. This is seen best in the general principles finally laid down in the NPC Report. The Note for the guidance of Sub-Committees of the NPC clearly stated that "defence industries should be owned and controlled by the state: Public utilities could be *owned or controlled* by the state but there is a strong body of opinion which is in favour of the State *always* owning public utilities. Other key industries should be *owned or controlled* by the State."[160] Thus as regards defence industries, public utilities and key industries, the NPC guidelines did not in anyway go beyond what the Indian capitalists accepted in the *Bombay Plan*. The only difference was regarding public utilities being *always* owned by the state, but this was, significantly, stated only as an "opinion". To accommodate and carry along the capitalists Nehru did not generally press such "opinions" beyond a point when they threatened a stalemate.[161]

Nehru had, in any case, as early as 1938, reassured the capitalists when he explained that although the Congress in a resolution of 1929 stated that in order to "ameliorate the condition of the masses, it is essential to make revolutionary changes in the present economic and social structure of society and to remove the gross inequalities", this resolution only "indicates an approval of socialistic theories, but apart from this general approval and some further advance in subsequent resolutions, *the Congress has not* in any way *accepted socialism*".[162] In August 1940 again, Nehru while talking of the objective of a "socialistic planned structure" in which state control and "socialization of national activities" would increase rapidly, assured everyone that "private enterprise has certainly not been ruled out but it

[159] *The Hindu*, 11 February 1944, emphasis mine.

[160] *NPCR*, p. 50, emphasis mine.

[161] See *NPCR*, pp. 188–89 and p. 159; Minutes of the NPC meetings to discuss Reports submitted by its various sub-committees, *PT Papers*, fl. 223.

[162] Chairman's note on Congress Policy, 21 December 1938, *NPCR*, p. 35. See also, Krishna, *Plan for Economic Development of India*, p. 49.

has to be strictly controlled and coordinated to the general plan".[163] The capitalists had no fear about this formulation as they themselves admitted the necessity of partial nationalization and strict control of the state over private enterprise in accordance with a general plan.[164]

Thus we see that the left nationalist viewpoint as it emerged, besides a possible anti-monopoly tinge,[165] was in no significant way very different from that of the capitalist, at least in practice. Both agreed to more or less a common programme of state participation and anti-imperialist economic measures and saw the necessity of rapidly developing the infrastructure for independent development.

However, the capitalists in general (including those who had advised against open confrontation with Nehru even in the mid-1930s when he was in his most "radical" phase) were still suspicious of Nehru and unhappy with the growing influence of the left in national policies. This was understandable as, after all, even with his "toned down" programme Nehru interpreted the planning exercise and the institution of the public sector as aimed at "establishing some of the fundamentals of the socialist structure" (see p. 416). Moreover, Nehru, as virtual Prime Minister, had quite unequivocally told FICCI in March 1947: "nobody wants any group or class to suffer as a class, but if there is conflict between the interests of one group (read capitalist class) and the larger community obviously the interests of the larger community must prevail, and it is for this group or class to say how what it wants done is to the interest of the larger community". Also, he warned the capitalists: "we may differ very greatly" on how to achieve "the betterment of the larger community" of "400 millions of India".[166]

Particularly, close to independence, when Nehru's importance in the national scene had become more or less an established fact, the Indian capitalists began to feel insecure. There was a constant fear that he may now, by using his high office and popular following, try to bludgeon through a programme which might interfere too much with the unhindered growth of private enterprise. The possibility that Nehru may carry through the programme of nationalization too far or interfere too much in "financial and labour fields" loomed large in the capitalists' mind. No wonder, therefore, that FICCI, in a resolution in 1947, while accepting a policy of selective nationalization, urged the Government of India to "make an *early announcement of their policy on this all important question* [i.e., the place of private enterprise in the economy] and assure the Indian commercial and

[163] Note by Chairman, NPC, 5th session, 30 August 1940, *Jawaharlal Nehru Papers*, fl. no. No. 38.

[164] See, for example, *Bombay Plan*, pp. 90 and 94–100.

[165] Even K.T. Shah, who took the sharpest stand against monopolies in some places, eventually modifies his stand. See *NPPA*, NPC Series, pp. 52 and 73.

[166] Nehru's speech at FICCI, March 1947, FICCI, *AR*, pp. 147, 16–27.

industrial interests full opportunity and facilities and encouragement in the spheres of trade, commerce and industry".[167]

The uncertainty that the power vacuum around the year of independence had created added to the capitalists' nervousness. Now that matters had reached beyond the stage of planning for a relatively uncertain future, and immediate decisions, real and binding, were about to be taken, even the capitalists of the cool and maturity of G.D. Birla began to get edgy. The era of great liberal speeches where Birla claimed that "If he was convinced that complete socialisation or handing over of industries to the government would be in the interest of the people, he did not think that any capitalist in the country would object",[168] was abruptly overshadowed for some time. The capitalists now instead of claiming their impartiality and objectivity on issues like nationalization and private enterprise took an increasingly conservative position, and frankly and firmly came out in support of private enterprise, at times even partially retreating from the positions taken earlier, say in the *Bombay Plan*.[169] Now that the basis for long-term policies was to be laid down, the time had come to apply maximum pressure on the newly independent regime. The characteristic subtlety of the capitalists was thrown overboard, for a while.

G.D. Birla, for example, in an address at the annual session of the FICCI in 1946, while providing a critique of government planning, said: "I am not exaggerating when I say that almost every control whether in the name of defence purposes or planning has functioned to frustrate and obstruct new expansion and production".[170] In the same address he maintained that state monopoly was as bad as private monopoly, and condemned the takeover of efficient firms.[171] In a note prepared and published in August 1947, Birla, making an obvious reference to Nehru, criticized a vacillating leftist policy and asked for a firm permanent policy which

[167] FICCI Resolutions, 20th Annual Session, 1947. *PT Papers*, fl. 336, emphasis mine.

[168] Press Conference given by the *Bombay Plan* authors. *Indian Spectator*, 13 March 1944.

[169] For example, in 1947, FICCI passed a resolution where nationalization of defence and certain industries was not accepted unconditionally, as in the *Bombay Plan*, but only "when private capital was not forthcoming". See FICCI, 20th Annual Session, 1947, *PT Papers*, fl. 336.

[170] Birla, *Path to Prosperity*, p. 86.

[171] It is true that Birla was so sharp in his criticism because he was talking in the context of the existing foreign government. Interestingly, the capitalists took the opportunity to air their views on such subjects quite sharply by referring to the policies of the British government (e.g., the Govt. Plan, 1945) which were in fact also being suggested in a modified form by the NPC. (e.g., the policies regarding nationalization). It was easier to take such a strong position against the outgoing British government than to openly oppose the leading party of the National Movement. Also, see G.L. Mehta to Walchand, 13 September 1945, *WH Papers*, fl. 619, for apprehension at Nehru talking about nationalization of key and heavy industries including transport. Birla was reported to be planning a meeting of leading businessmen and industrialists to think over the situation seriously and see what could be done in the matter. *Ibid*.

would create confidence in businessmen. It is worth quoting a longish passage from this note:[172]

> If we base our plans on the assumption that private enterprise is to play an important part in future economic expansion, then we can ill-afford to create loss of confidence in business and financial circles. The worst method to attract private capital is to deliver unbalanced speeches and make amateurish experiments in financial and labour fields. You cannot eat your cake and have it.... Those who—to placate the leftists—apologetically defend private enterprise on the ground that it is essential in the near future, though it will be liquidated later on, are doing no less harm than the extreme socialist... a clear cut policy will do more good than vacillating agreeable talks.

Others like Purshotamdas, S.P. Jain and R.R. Chettiar also made similar points and expressed anxiety over the "loose talk of nationalisation of industry" which was creating a feeling of insecurity and adversely affecting the environment for private investment. The demand was for a "clear pronouncement" of government policy and the ending of "suspense" regarding where nationalization was to stop and private enterprise was to start.[173]

However, such speeches and writings were not the only form of opposition the capitalists used to counter Nehru and the left in the Congress. They took other active measures. For example, in December 1946, when the Constituent Assembly was discussing "Fundamental Rights", Purshotamdas sent an urgent message to Birla, voicing the opinion of "representative businessmen" who thought that "a safeguard regarding property, ensuring that there should be no appropriation of property, without adequate compensation should be included".[174] As there was no time to send representations to the Assembly, Birla was urged to take "necessary action". Birla's action was to keep in close touch with the right wing leaders of the Congress and get the capitalists' viewpoint put across either through these leaders or through their own representatives elected to these bodies.[175]

[172] G.D. Birla, "Outline of a 5 Year plan", in *Path to Prosperity*, p. 101.

[173] Purshotamdas, Chairman's speech at annual meeting of Machinery Manufacturers Corporation Ltd., 30 December 1948, *PT Papers*, fl. 378; S.P. Jain, R.R. Chettiar, FICCI, *AR*, 1947, pp. 76 and 88 respectively. See also G.D. Birla, FICCI, *AR*, 1947, pp. 41–50. In December 1947 again an attempt was being made to have a meeting of the business leaders from all over the country to discuss the question of "Government ownership or participation in industries". See Correspondence between J.R.D. Tata and Purshotamdas, December 1947, *PT Papers*, fl. 365.

[174] Telegram, Purshotamdas to Birla, 12 December 1946, *PT Papers*, fl. 239.

[175] Telegram, Birla to Purshotamdas, 17 December 1946, *PT Papers*, fl. 244.

The strategy was to put sufficient pressure on Nehru to keep him, in Purshotamdas's earlier words, "on the right rails".[176] While strengthening the hands of the Congress right[177] was one way of doing so, efforts were also made to convince even Nehru intellectually of the "falseness" of his ideological position.[178]

However, whatever be the strategy to combat the left threat, one thing was clear that even under the pressure and provocation of the years near independence, the capitalists did not repeat the attempt at an open confrontation with Nehru. Nor did they seek the help of imperialism or compromise with it in an attempt to ward off the left threat.[179]

The left threat was no doubt felt very keenly in the wake of independence. C. Rajagopalachari's blatantly pro-capitalist speech to FICCI, in March 1947, as Industries and Supplies Member of the Interim Government, must have gone some way in reassuring the capitalists but it was clearly not enough. Rajaji, on the one hand, asked the capitalists to "exorcise the ghost of nationalisation", remove from their minds the "uncertainty" that had been bothering them on this question; and "as regards the fear of socialism", he said, "that need not worry you". On the other hand, he said, in the present world nationalization and socialism, like death, would always be on the horizon. No assurance from him or even the whole cabinet would suffice as they might not be in power "day after tomorrow". Therefore, he said, "do not ask for any certainty about no nationalisation". All that Rajaji was able to assure was that "no nationalisation [was] practicable at the present" and "compensation [would] go along with any scheme of nationalisation".[180]

This evidently could not fully assuage the capitalists' fears. H.P. Mody described the months immediately following independence as "months of storm and stress, doubt and difficulty, anxiety and apprehension" when apart from the communal trouble "strikes were the order of the day and extreme ideologies were openly advocated. Even the Economic Programme Sub-Committee of the Congress recommended a wholesale nationalisation of all existing industries."[181]

[176] Purshotamdas to Birla, 23 April 1936, *PT Papers*, fl. 177.

[177] For a fuller discussion of this strategy, see Chapter 2.

[178] One interesting instance of the latter was when Purshotamdas in his effort to "nurse" Nehru asked Shroff to send him a "very informative" book called the *Failure of Nationalisation*. Purshotamdas to Shroff, 14 June 1939, *PT Papers*, fl. 220(1).

[179] We have discussed elsewhere in greater detail how the capitalist class as a whole responded to the threat of left over time. See Chapter 2 in this volume.

[180] C. Rajagopalachari, FICCI, *AR*, 1947, pp. 56–68. I have yet to come across a speech made by a *major* national leader which eulogized the capitalists so much and which reiterated so many of their class positions.

[181] Manuscript of Mody's Autobiography, Ch. XI, *H.P. Mody Papers*, fl. misc. 5. The Economic Programme Committee of the Congress had Jawaharlal Nehru as its Chairman.

Towards the end of 1947, the capitalists again commenced efforts to have a meeting of the business leaders from all over the country to discuss the question of "government ownership or participation in industries".[182] A deputation consisting of a wide spectrum of the capitalists, from G.D. Birla to Sir Biren Mukherji and led by H.P. Mody,[183] met the Prime Minister, Jawaharlal Nehru, Sardar Patel, Finance Minister, Shanmukham Chetty, and Minister of Industries and Commerce, Shyamaprasad Mookerji, expressing "the fears of industrialists and businessmen".[184] Nehru was reported to have assured the capitalists on behalf of the government that "its policy would not be such as to hit the industrialists or the investors and that any nationalisation programme would be undertaken only after circumspection and the fullest consideration of all points of view".[185]

Nehru's assurances notwithstanding (though they must have been welcome), the capitalists remained anxious about the influence of the left forces represented by Nehru and others. To combat these forces, a section of the capitalist class got actively organized in the years after independence behind the "Forum of Free Enterprise", which inter alia did extensive ideological propaganda involving a wide section of the intelligentsia.[186] A section which had always argued for a more direct intervention by the capitalists in politics put its weight in later years behind the Swatantra Party and tried to influence government policy by entering the legislatures themselves. Others, who followed G.D. Birla's advice, depended on the "political and literary representatives" of their class to do the job and tried to strengthen forces which operated with a bourgeois ideological perspective within popular parties like the Congress.

No section of the capitalists, however, saw Nehru as representing their class perspective. This point needs to be made because of the strength of a contrary viewpoint, popular among the left.[187] Nehru has been seen as

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Maulana Azad, *John Mathai*, Shankar Rao Deo, N.G. Ranga and T.C. Kumarappa were said to have attended its meetings. The Committee did envisage a wider programme of nationalization including Banking and Insurance. In respect of existing industries to be nationalized the committee recommended that the process should commence after five years (which was not much solace to the Indian capitalists). See *Free Press Journal*, 28 January 1948, *WH Papers*, fl. 110(1).

[182] See Correspondence between Purshotamdas and J.R.D. Tata, December 1947, *PT Papers*, fl. 365.

[183] The other members of the deputation included Shri Ram, Badridas Goenka, Kasturbhai Lalbhai and Dharamsi Mulraj Khatau.

[184] All the ministers except Nehru were known to be favourable to the capitalist system. Chetty was an erstwhile leader of FICCI.

[185] Manuscript of Mody's Autobiography, Ch. XI, *H.P. Mody Papers*, fl. misc. 5.

[186] A.D. Shroff, Lalchand Hirachand, etc., were among the leaders of the Forum. Professionals of the eminence of Frank Moraes and N.A. Palkiwala participated in the activities of the Forum. See fl. of Lalchand Hirachand, no. 319, *WH Papers*.

[187] I had myself earlier subscribed to a similar viewpoint. See *EPW*, 17 January 1976 and 2 September 1978.

having "toned down" his programme so much as to make it indistinguishable from that of the capitalists. His radicalism has been interpreted as pure "populism" which helped garner the support of the mass of the people for a bourgeois regime. Further, arguing backwards from the results, the fact that what developed under the Nehruvian plans was capitalism, though independent capitalism, it has been said that planning and the public sector were instruments of development of capitalism.[188]

This reasoning is, in my opinion, flawed. Institutions like planning and the public sector like democracy are not intrinsically class specific. The capitalists attempted to use these institutions to promote independent non-colonial development in India simultaneously ensuring that it occurred within the capitalist framework. Nehru and the left nationalists too hoped to use them for independent development but on a path which would gradually over a period take India towards socialism. Both sides were trying to use the same instruments for opposite purposes. The fact that the capitalists accepted elements of the left nationalist programme did not alter their objective to that of building socialism. Similarly, Nehru's agreeing to "tone down" the left programme to carry along the capitalists in the projected developmental effort did not amount to his adopting the objective of building *capitalism*.

By itself the introduction of the institutions of planning and the public sector did not mean either a step in the direction of socialism or of strengthening capitalism whatever might be the wishes of those who promoted them. Which direction these institutions actually got used in was a function of the balance of class forces in civil society and the various state apparatuses (including the government, legislatures, bureaucracy, media, education system, etc.). The failure of the Nehruvian paradigm did not lie in attempting to change the economic order in the socialist direction using institutions like planning and particularly the public sector within the democratic framework. The failure lay in the *left in general* not being able to perform adequately the *political task* of shifting in its own favour the class balance in the state apparatuses and civil society. The result was that even institutions like the public sector got used, and still continue to get used, to strengthen the basis of the growth of capitalism in India.

The capitalists were, however, aware of the potential of these institutions being used to bring about social change, of the Nehruvian paradigm being used to bring about systemic changes. That is why with all of Nehru's "toning down" they saw a threat in him and in his efforts, however limited the success in practice of the effort to give a left orientation to these institutions.

The reason why they still accepted Nehru, did not go for an open confrontation with him, and even cooperated with him, was not because they

[188] See, for example, Namboodiripad, *Indian Planning in Crisis*.

thought Nehru had been pressurized into becoming a representative of their class perspective, a useful instrument for the maintenance of the capitalist system. They did so for entirely different reasons, which reflected their maturer understanding (as compared to that of the Indian left's) of the relationship between class, party, popular movements and popular governments.

The capitalists, as we have argued elsewhere (see Chapter 2, Section III), saw the relative autonomy of popular movements, such as the Congress-led national movement, from any one class. They did not treat the Congress as their *class party* over which their class had sole hegemony. Their own role was seen to be that of trying, as far as possible, to tilt the balance inside the movement in their favour and not that of trying to impose their writ on the popular movement. Such a perspective, which accepted the relative autonomy of the popular movement, also involved the acceptance of the will of the popular mandate even if it involved sacrificing the short-term interests of any particular class. One could over time try to alter the class balance in the popular movement and thus the popular mandate but the popular mandate at any point of time had to be accepted however biased it might appear against a particular class perspective (unless of course it involved the destruction of that class perspective altogether). Denying the popular mandate and placing oneself frontally against it, i.e., placing oneself outside the popular movement, would involve losing any influence in the movement and its future direction—a fate often invited upon itself by the left in India and generally avoided by the capitalists. Thrown up by the popular movement, Nehru had to be accepted as a leader—all that could be done by those who disagreed with him was to, without directly confronting him and rejecting his leadership, strengthen the hands of those who shared a class perspective close to the one desired. This is what the capitalists tried to do.[189]

The understanding shown of popular movements was also shown of popular governments. The capitalists realized that no one class would or could claim sole hegemony over the popular government that came to power in India after independence. They certainly did not see the Nehru government as a government over which they had sole hegemony. They also realized that a popular government, which was a changing (or changeable) bloc of classes, parties and political forces,[190] would have to balance and resolve conflicting interests requiring sacrifices (though perhaps unequal, depending on the balance of class forces) from all classes. As G.D. Birla put it, "all government indeed every human benefit and enjoyment, every

[189] See pp. 403ff. and Chapter 2, Sec. II in this volume.

[190] See Bipan Chandra, "Marxism in India", *Mimeo.*, p. 15, published in *Seminar*, June 1974, No. 178, under the title of "Total Rectification" for a discussion of the perception of relationship between the ruling classes and a popular government.

prudent act is founded on compromise and barter. We balance inconveniences, we give and take. We remit some rights that we may enjoy others."[191] Similarly, the element of sacrifice that the capitalists must accept for the successful running of a popular government was seen by FICCI, which in a resolution in 1947, while in general emphasizing the need of letting private enterprise grow unfettered, noted: "The Federation at the same time recognises that *popular government* may have to regulate the activities of private enterprise in such a manner as would serve the larger national economic interest."[192] This understanding was one reason which led the capitalists to accept Nehru and some of his policies even when they were unpalatable to them as a class.

Further, the capitalists, as in the case of Nehru, were committed to planning, and planning *within* a *democratic framework*.[193] They were aware of the unique nature of this effort at comprehensive planned development within a democratic framework. An effort for which, as John Mathai put it, "we get little guidance from history". He added: "economic development on a planned basis has so far been achieved to any notable extent only by Soviet Russia and Germany. None of the democratic countries has so far made any attempt in this direction on a comprehensive scale."[194] The capitalists, however, while admitting in the *Bombay Plan* that "an enlargement of the ... functions of the state" or state intervention was "inherent in planning", refused "to concede that no society can undertake a comprehensive and integrated plan of economic development except by discarding the fundamental postulates of democratic government". The Plan went on: "There is no warrant in logic or history for such an assumption. If democracies can successfully plan and organise their resources for waging wars it stands to reason that they can do so equally for fighting social evils such as poverty, disease and ignorance." Further, "we believe that planning is not inconsistent with a democratic organisation of society. On the contrary, we consider that its objects will be served more *effectively* if the controls inherent in it are voluntarily accepted by the community and only enforced with its consent."[195]

The adoption of the democratic framework involved a certain logic. For example, the commitment to a democratic framework meant for Nehru that he had to "tone down" or "weaken [his] plan in some respects" in order to carry a wide section of society with him and even get the "cooperation

[191] G.D. Birla, "State and Private Enterprise", speech in FICCI annual Session, 4 March 1949, in *Path to Prosperity*, p. 520.

[192] FICCI Resolution, 1947, *PT Papers*, fl. 336.

[193] The capitalists repeatedly reiterated this point. See, for example, G.D. Birla, FICCI, *AR*, 1946, p. 25.

[194] Mathai's draft for the Post-War Economic Development Committee, on State and Economic Organisation, 17 August 1944, *PT Papers*, fl. 307.

[195] *Bombay Plan*, pp. 89–92.

of some at least of the groups who were normally opposed to socialist doctrine".[196] Similarly, the capitalists' commitment to democracy made it incumbent on them to tolerate and at times even cooperate with those, like Nehru, who did not believe in capitalism. The alternative for them would be a right wing dictatorship or an authoritarian regime susceptible to only their class dominance. The capitalists at no stage, at least in our period, argued for the latter scenario.[197]

The capitalists realized that any plan to be successful in a democratic framework could not be made the instrument of only one class. As G.D. Birla put it, "any plan that does not seek to mobilise and harness the goodwill of *all sections* of the society, be (it) *the leftist or the rightist*, of all the progressive minded citizens, is doomed to...failure". Further, he added, "the planning authority should be above party politics so as to be in a position to get the fullest *cooperation of all classes* of people".[198]

The survival of the capitalist system, particularly in a democratic framework, was to an important extent dependent upon the effective implementation of a developmental programme which, while remaining within the parameters of capitalism, was able to "harness" the support of the masses of people. This was possible only if the plan or programme adopted was not, nor was it seen as, pursuing the interests of only the capitalist class. Showing awareness of this aspect, the FICCI President, G.L. Mehta, declared as early as 1943 that FICCI would have to emerge, after independence, as *"the economic front...of a healthy and broadbased nationalism"* and not remain content at being "a custodian of sectional interests". He added that the extent to which the "Indian commercial interests" were able "to identify themselves with the wider economic interest of the nation, respond to the... needs of the people" would determine the extent to which they would succeed in passing "the trials and conflicts and struggles in the years to come".[199]

It is this kind of perspective then which goes towards explaining the capitalists' acceptance of Nehru and of elements of the left nationalist programme. It is significant that they were perhaps among the first in the world to project as a class a model of welfare capitalism.[200]

[196] See above, p. 416.

[197] Nor did such a scenario appear even remotely feasible politically in India. It has also not been feasible decades after independence despite the clear increase in the political economic and ideological weight of the capitalist class.

[198] Birla, "The Plan Explained", Pamphlet, 1944, *PT Papers*, fl. 260, emphasis mine.

[199] FICCI, *AR*, 1943, pp. 30–32. See also Chapter 12.

[200] The capitalists demonstrated this sophistication and maturity in the 1930s and 1940s. Over time along with the general decline in Indian polity the class has ceased to operate with such sophistication as a class. The contrast between the current class leadership and that of G.D. Birla, Purshotamdas Thakurdas, etc., is similar to that between the current national leadership and leaders like Gandhiji, Nehru, Patel and Rajendra Prasad.

Last, even at the cost of repetition it may be reiterated that the capitalists cooperated with Nehru because, despite their differences, they shared a common project. The project of modernization, of lifting the Indian economy from the backwardness and degradation it had reached under colonialism to the frontiers of human technological and economic achievement, of rapid industrialization without getting sucked into the whirlpool of economic imperialism.

TWELVE

Concluding Remarks

India witnessed a certain measure of indigenous economic development even during the colonial period, particularly since the First World War. This positive, "non-colonial" type of development was partially a product of the struggle of the Indian capitalist class and the Indian national movement against colonialism. In other words, it occurred *in spite of and in opposition to* colonialism and not as a result of it. However, despite incipient trends in the reverse direction toward the end of the colonial period, the Indian economy was, at the dawn of independence in 1947, still basically structurally colonial. A meagre infrastructural development (barring a "colonial" railway network) and a weak industrial base, especially in capital goods, characterized the Indian economy, which was dominated by a stagnating, low productivity, "semi-feudal" agriculture. Foreign capital continued its stranglehold in certain important sectors and the dependence on the advanced capitalist countries for capital goods and technology remained.[1]

In the years following independence, the independent Indian state was to make a major effort to "destructure" the inherited colonial structure, and to launch India on the path of rapid independent development. The specific path followed by India in this stupendous task was different from that followed by most other post-colonial societies and was unique in certain respects. For example, it made a reasonably successful attempt to break out of the paradigm or structure of colonial or semi-colonial dependency to move from the periphery towards the core (or semi-periphery in Wallersteinian terms) of the world capitalist system and it did so while the country remained a part of the capitalist system. It succeeded in building an *independent capitalist economy*, however backward, which was *structurally* closer to the core countries, especially the backward ones among them,

[1] See Chapters 1, 5, 9 and 10 in this volume.

than to the countries of the periphery, though in terms of income rates it often compared poorly even with some of the peripheral countries.[2] This was a feat which was thought to be impossible by a wide range of radical social scientists and dependency theorists who argued that only breaking out of the world capitalist system into socialism could achieve this task.[3]

Moreover, India tried to achieve rapid industrialization while maintaining political democracy based on adult franchise and civil rights including powerful trade union rights. This again was an effort without any historical parallel in the world, as virtually every country which had undergone industrialization, did so, at least in the initial phases, on the basis of the suppression of the democratic and civil rights of a section of their own people and often also those of the people of other countries—the colonies.

India, unlike other post-colonial countries, was able to follow this particular path of *independent* economic development along with political democracy while remaining within the capitalist framework because of certain historically specific conditions that prevailed here. Some of these were: the specific political and ideological impact on the masses of Indian people of the prolonged Indian national movement, the role of the left, the size of the country and its domestic market, the nature of economic development at the point of independence, and so on.[4] Also, the economic, political and ideological development of the Indian capitalist class as it evolved during the colonial period made an important contribution to the developmental effort made by the post-colonial Indian state. It contributed particularly towards the effort remaining largely within the bourgeois framework. It is mainly regarding the last aspect, i.e., the role of the capitalist class, that I shall make a few comments here.

Though at independence the Indian economy as a whole was still basically structurally colonial, the indigenous capitalist class had managed to achieve a considerable growth on its own independent account. As we saw earlier (Chapter 1), the Indian capitalist class had by independence acquired control over the bulk of the domestic market, the financial sphere and internal trade, and had started making inroads into spheres like foreign trade, shipping and other such areas over which foreign capital still maintained a considerable hold. Also, some of the typical disarticulating features of an extroverted colonial economy had started getting reversed

[2] See Mukherjee and Mukherjee, "Imperialism and the Growth of Indian Capitalism in the Twentieth Century", for a detailed discussion of the developmental path followed by India after independence. I am relying heavily on this work for many of the generalizations about post-independence India made in this chapter. See also, Bipan Chandra, "Aspects of the Transformation Period in the Modern and Contemporary World", *Hitotsubashi Journal of Social Studies*, Vol. 21.1, 1989.

[3] See Chapter 1 in this volume.

[4] See Mukherjee and Mukherjee, "Imperialism and the growth of Indian Capitalism in the Twentieth Century".

and the Indian economy at independence had shifted from being a major debtor country to a creditor country.

The Indian capitalist class and the Indian economy had thus already acquired a relatively strong bargaining position vis-à-vis metropolitan capital at the time of political independence, creating a *base* from which an independent path of development could be attempted. This was an advantage which many other post-colonial societies in Africa and Asia did not possess at the eve of their independence. Their economies were still predominantly controlled by the forces from whom they had seized independence. This seriously inhibited their ability to launch on a path of independent economic development after securing political independence.

Also, the very fact of there being available in India a large entrepreneurial class well entrenched in various areas of economic activity was to prove a great advantage. The ambitious plans made for rapid economic development after independence necessarily required an "agency" in the form of an entrepreneurial class which could help implement them. Even the limited alternative of trying to achieve plan objectives through the promotion of public sector enterprises could not be pursued on a large enough scale, particularly in the initial years, because inter alia, the trained personnel or the "bureaucracy" needed to man these enterprises was yet to be created. Several countries, for example, in Africa, which achieved their independence after India and adopted ambitious and radical plans for economic development were to a large extent unable to implement these plans because no significant indigenous entrepreneurial class had as yet emerged in those countries. That the lack of such a class can act as a major bottleneck is seen today in the former Soviet Union and Eastern European countries which, after the disintegration of the socialist system, are trying to initiate growth on the basis of private enterprise and a mixed and market-oriented economy.

Further, it helped the developmental effort a great deal that the capitalist class as a whole was essentially in tune with, rather than opposed to, the basic strategic objectives of the planned development envisaged by the post-colonial state. The capitalists, for example, fully endorsed the objectives of: trying to achieve comprehensive all-round development aimed at reducing foreign domination over the Indian economy and a quick rise in the standard of living of the Indian people; initiating rapid industrial development which was to be carried out by indigenous capital and was to be based essentially on the home market, and was aimed at creating self-sufficiency, particularly in capital goods; allowing only a small volume of foreign capital, and that too under strict controls; not adopting an "isolationist" outlook and participating in all possible areas of international cooperation, though on an equal footing, rejecting any terms which undermined India's sovereignty and her right to follow her own chosen path; promoting comprehensive anti-feudal land reforms; maintaining the

economic unity of India; bringing about a mixed economy with a combination of the private and public sectors; introducing "welfare" measures which would cushion the social costs of the development process on the poor and underprivileged and, most important, carrying through the developmental effort within a democratic framework.[5] In fact the capitalists had stated these very objectives in their own Plan of Economic Development (*Bombay Plan*), drawn up on the eve of independence.[6] There were few fundamental differences between their plan and the planning schemes introduced after independence.

The endorsement by the capitalists of the basic tenets of the national developmental effort after independence not only contributed to the relative success of such an effort but also prevented the isolation of the capitalist class from the Indian mainstream and contributed to the bourgeois developmental perspective exercising overall hegemony over the post-colonial state, despite the existence of a significant left strand and Prime Minister Nehru's own socialist commitment. Also, the fact that, despite strong contending trends, the Indian national movement remained under bourgeois ideological hegemony had a lot to do with the bourgeois perspective dominating the post-independence government and other state apparatuses as well as civil society. Moreover, the fact that the capitalists adopted (unlike the left generally) as complex and mature a stance towards the post-colonial popular government and other institutions as the one they had adopted vis-à-vis the Indian national movement further consolidated the hold of the bourgeois perspective in post-colonial India, in the same way as it had helped retain bourgeois ideological hegemony over the Indian national movement.[7]

In the colonial period the Indian capitalists' refusal to abandon the side of nationalism in the political sphere, despite its growing radicalization, their evolving a most comprehensive critique of imperialism in the economic sphere, their effort not to be seen as arguing for narrow sectional interests and their ability to successfully project their class interest as societal interest, their ability to identify their long-term and wider interests, their willingness to subordinate their short-term and narrow or sectional interests for the sake of achieving their long-term interests, their subtle understanding of the relationship between a particular class and a popular movement (and the failure of the left on most of these counts) went a long way in the maintenance of bourgeois ideological hegemony over the Indian national movement.[8]

The Indian capitalists envisaged their role in the post-colonial situation where a democratic popular government was to be in power, in an equally

[5] See Chapters 9 and 11 in this volume.
[6] See Chapter 11 in this volume.
[7] See Chapter 2, particularly Section III, in this volume.
[8] *Ibid*.

complex manner. Just as they did not see the Congress, the leading party of the Indian national movement, as their *class party* and sought only that it remain under bourgeois ideological hegemony, similarly they were able to see that the post-colonial popular government would not be under their exclusive domination or control and they would in fact have to carefully evolve such a stance that the class balance in the government and other state apparatuses did not turn against them. The capitalists did not commit the error often made by the left of misinterpreting the capitalist support to the Congress, of seeing the Congress before independence as virtually a class party of the capitalists and consequently the post-colonial Congress government as essentially a government of the capitalists. Interestingly, the British colonial government too, by and large, did not make this error. The British Intelligence Bureau in a report in 1944 correctly predicted:[9]

> The support given by Indian "Big Business" to the Congress movement may be compared with that given by Russian "Big Business" to the Mensheviks before the Russian revolution and that given by German "Big Business" to the Nazis. In both these instances "Big Business" failed conspicuously in the end to dominate the government which it helped to create and there is no reason to suppose that Indian "Big Business" will prove any more successful in realising any ambitions that it may have in this direction.

The capitalists were aware that a democratic popular government could not be under the exclusive control of any one class. It would have to balance and resolve conflicting interests requiring sacrifices (though unequal, depending on the balance of class forces at each point of time) from all classes. The capitalists were willing to make the necessary sacrifices while simultaneously trying to shift the balance in their favour. Unlike the bourgeoisie of many other post-colonial third world countries, the Indian capitalists did not at any point of time opt for the alternate model—a right-wing dictatorship or an authoritarian regime dominated by the capitalist class.[10]

The twin notions of anti-imperialism and democracy were deeply ingrained among the Indian people through the efforts, spanning nearly a century, of the Indian national movement. The capitalists too were deeply influenced by *both* these ideas. While fully aware that there was "little guidance from history", from the experience of other countries, for undertaking the task of comprehensive economic development within a democratic framework, they nevertheless argued that the objective of planned

[9] Note on Congress and Big Business by Director, Intelligence Bureau, 28 February 1944, enclosed with Viceroy to Secretary of State, 3 April 1944, *L/P&J*/11 27MA, IOR, London.

[10] See Chapter 11, Section V.

development would be served more "effectively" by a "democratic organisation of society".[11]

The capitalists' acceptance and even welcoming of the institution of democracy, rather than their pitting themselves against it, was of enormous import, particularly in relation to the influence of their class and their class perspective over the rest of the Indian society. Once the notion of democracy had taken root among the people in general or democratic institutions were in place, any class (or section) which opposed democracy or based its politics outside its framework only ended up isolating itself and reducing its own legitimacy, as well as that of its class (or sectional) perspective over the rest of society. The traditional left (dominated as it was by "Stalin–Marxism") often suffered this denouement as it tended to view democracy (as they viewed nationalism) in a class reductionist manner, seeing it as a bourgeois institution (and consequently a democratic state as a bourgeois state) which had to be overthrown, preferably through an insurrection, to bring in the "dictatorship of the proletariat". It did not see the democratic state as an open-ended institution which could be transformed in favour of the oppressed by so altering the class balance in it as to orient it in a socialist direction. The adoption of such a stance by the left amounted to its surrendering the democratic space in the state apparatuses and civil society to other influences (such as that of the bourgeoisie) and thus allowing a consolidation of such influences.

Given this perspective, it is not accidental that historically the "Stalin–Marxist" left forces have succeeded only when confronted with autocratic regimes and have generally failed to grow in areas where democratic institutions existed. Jawaharlal Nehru was among the first to question the "Stalin–Marxist" paradigm, to recognize the centrality of democracy to socialism and to the struggle for socialism.[12] The Euro-communists too abandoned a lot of Stalinist orthodoxy and tried to evolve a socialist strategy within a democratic framework. Such strands, however, remained relatively marginal in India and in the international socialist movement. In socialist countries the break came with the experiments made by Gorbachev, but by then it was perhaps too late—the people in their quest for democracy overthrew socialism itself, a socialism which denied democracy.

Once democracy and democratic institutions were not assigned (as they were not by the Indian capitalists) a pre-determined class character, it followed that any class could use them to extend its influence and seek to transform them in its favour. A class seeking to extend its influence in a democratic state (or in a popular movement) would have to be able to carry the bulk of the people with its programmes and plans. It would have

[11] See John Mathai's draft for the Post-War Economic Development Committee, on State and Economic Organisation, 17 August 1944, *PT Papers*, fl. 307; and *Bombay Plan*, pp. 89–92. See also Chapter 11, Section V.

[12] See Chapter 11, Section V.

to create a societal vision which (while it met its own interests) was not seen to be narrowly conceived in the interest of any one section of society.

In the colonial period the capitalists championed the cause of the defence of *national* economic interests, consciously emphasizing those aspects of its anti-imperialist agenda which would particularly benefit the common people.[13] In a colonial situation it was relatively easier for the capitalists to project their interests as societal interests as there was in this situation, to a considerable extent, a genuine coalescence of the two interests—it was not only the Indian capitalists but the Indian people as a whole who were oppressed by imperialism.

The post-colonial situation was, however, somewhat more complex. Though in the effort at generating independent economic development the capitalists and the rest of Indian society would share certain common objectives, the main contradiction in Indian society would no more be imperialism vs. the Indian people but would increasingly tend to be within the various classes of Indian society, with socialism lurking on the horizon.[14] In such a situation the capitalists' task of adopting and projecting a model of development which would (while maintaining capitalism) successfully carry the rest of society with them was daunting. The capitalists would have to adopt a national developmental approach which, while remaining within bourgeois parameters, would appeal to society as a whole and not only to the capitalist class. It was such an approach that the capitalists adopted in their plan of development for independent India.[15]

The FICCI President, G.L. Mehta, as early as 1943, brilliantly anticipated the complex task ahead for class organizations of the capitalists like FICCI, once "self-rule" was achieved. He said:[16]

> Indian commercial bodies have hitherto, necessarily because of our political conditions, played a mainly critical role... But with the attainment of popular responsibility and the growth of *representative institutions*, the Federation (FICCI) will have an increasingly constructive part to play in national economy. As the apex organisation of Indian commerce and industry, it will not rest content to be a *custodian of sectional interests*, in a land where sectionalism thrives, nor a defender of the status quo, but will strive to be the exponent of a sane and creative body of opinion in the economic sphere: *the economic front*, in fact, *of a healthy and broadbased nationalism*. In so far as Indian commercial interests seek to *identify themselves with the wider economic interests of the nation, respond to*

[13] See, for example, Chapter 3 and Chapter 11.

[14] Mukherjee and Mukherjee, "Imperialism and the growth of Indian Capitalism in the Twentieth Century".

[15] See Chapter 11.

[16] G.L. Mehta, Presidential Speech, 27 March 1943, FICCI, *AR*, 1943, pp. 30–32, emphasis mine.

> *the finer and growing needs of the people* and continually adapt their outlook and *adjust their programme* to the fundamental economic requirement of the changing times, in so far would they *successfully pass the trials and conflicts and struggles* in the years to come... Let it not be said that we were weighed in the balance and found wanting. For, with the rest of the country, we also are all *on our trial at the bar of history*.

The capitalists also realized that they would have to cooperate with the post-colonial popular government in trying to achieve this broad-based goal of national societal development. A failure to do so would isolate the capitalists, putting them in the "anti-people" camp, facilitating a diminution of their influence, if not their overthrow. The capitalists thus agreed to cooperate with Nehru's government despite their inhibition about the left anti-capitalist inclinations of many in that government and Nehru's own socialist vision,[17] in the same way as they had stayed with the national movement despite a strong left trend within it. As M.A. Master, President of FICCI said in an address to the Federation:[18]

> We are in a changing world.... New [read Left, A.M.] ideologies have come into existence. We shall have to *adjust our plans and policies*. New obligations and duties will be imposed on us. We will have to take courage... and respond on many occasions to the wishes which our Government might express and to the new policies which our Government may lay down.... As we are expecting them to meet our wishes it will be our obligation to meet their wishes.

Again, in his message to Prime Minister Jawaharlal Nehru carrying felicitations on the occasion of India's independence, Master said:[19]

> The Indian commercial community has played its part in India's fight for freedom and has stood by and supported the Indian National Congress in its long unprecedented unique and heroic struggle for winning freedom for our motherland.... While we all realise that the fight for freedom has been won *the victory for economic emancipation and social regeneration is yet to be won. In any well thought out plan the Government may therefore evolve for removing poverty, misery and economic and social inequality and injustice* from the country to make our people happy, contented and prosperous and for enabling India to attain her rightful place and to play her destined role in the comity of the free nations of the world may *I assure you that the Federation will work with your Government*

[17] See Chapter 11, Section V.

[18] M.A. Master, FICCI, *AR*, 1947, p. 145, emphasis mine.

[19] Telegram from Master to Nehru, 14 August 1947, FICCI *Corresp.*, 1947, pp. 249–50, emphasis mine. G.D. Birla and the FICCI took similar positions. See Chapter 11, Section V.

in closest mutual cooperation and will always place their services at the disposal of your Government.

In any society (particularly a colonial society where the entire people clearly have certain common interests) it is not enough to pursue merely sectional or class politics, i.e., organize a class as a class. It is also necessary to evolve policies for the whole nation or society of which the class is a part. The two processes are dialectically linked to each other and the extent of hegemonic influence a class acquires is critically linked to the extent to which the two processes have complemented each other in the politics of that class. While the capitalists in India tended to recognize the link between the two processes the Communists tended to concentrate exclusively on the organization of their basic classes.

To the extent that this study contributes to an understanding of the manner in which the Indian capitalist class historically got structured as a class and of the processes through which it sought to acquire and maintain its hegemonic influence over society, to that extent it may also offer some explanations for the specific class balance that emerged and got reflected in the political economy of contemporary India. A study of the "ruling classes" is perhaps as important as a study of the ruled (the "subaltern") to understand why they come to occupy the societal positions that they do.

Appendix

Chamber and Association Members of FICCI in 1927

1. The Marwari Chamber of Commerce Ltd, Bombay.
2. The Indian Merchants' Chamber, Bombay.
3. The Karachi Indian Merchants' Association, Karachi.
4. The Indian Chamber of Commerce, Calcutta.
5. The Burma Indian Chamber of Commerce, Rangoon.
6. The Southern India Chamber of Commerce, Madras.
7. The Buyers' & Shippers' Chamber, Karachi.
8. The U.P. Chamber of Commerce, Cawnpore.
9. The Mysore Chamber of Commerce, Bangalore.
10. The Maharashtra Chamber of Commerce, Patna.
11. The Bihar & Orissa Chamber of Commerce, Patna.
12. The Bombay Bullion Exchange Ltd, Bombay.
13. The Marwari Association, Calcutta.
14. The Ahmedabad Millowners' Association, Ahmedabad.
15. The Grain Merchants' Association, Bombay.
16. The Indian Produce Association, Calcutta.
17. The Indian Tea Planters' Association, Jalpaiguri.
18. The Southern India Skin & Hide Merchants' Association, Madras.
19. The Telikanta Brokers' Association, Calcutta.
20. The Bombay Shroffs' Association, Bombay.
21. The Delhi Hindustani Mercantile Association, Delhi.
22. The Indian Mining Federation, Calcutta.
23. The Bihar & Orissa Mica Association, Giridih.
24. The East India Jute Association Ltd, Calcutta.

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This pioneering book analyzes the evolution of Ind... conscious, all India class, and simultaneously provi... of colonial India in the first half of the twentieth century... of the relationship that the capitalists developed with imperia... ny simplistic stereotypes such as that the capitalist class was loyalist or incapable of being consistently anti-imperialist, or that the course of the national movement was critically determined by the capitalist class.

Aditya Mukherjee argues, to the contrary, that the Indian capitalists, while of necessity maintaining a working relationship with the colonial state, evolved a sophisticated economic critique of colonialism, including such complex phenomena as the "unequal exchange" that occurs in the trade between countries with different levels of productivity. They thus continued the task performed by the early nationalists in the late nineteenth century, of being the national watchdogs and of exposing imperialist designs on the economic front. And while they neither led nor created the national movement, they gave support to it in a manner that would keep the Left-wing within the movement contained and help save capitalism as a system. The role played by leaders such as Sir Purshotamdas Thakurdas and G.D. Birla and their relationship with national leaders such as Gandhiji, Sardar Patel and Nehru is also discussed.

Professor Mukherjee provides a detailed analysis of the economic debates of the time on issues concerning tariffs, trade, industry, monetary policy, foreign capital, planning and the public sector. Some of the other significant aspects discussed are:

- The critical involvement of Indian capitalists in economic bargaining with the British government both in India and England during trade negotiations, in the legislatures, in parliamentary commissions, during the Round Table Conferences, and in negotiating the return for India of the famous Sterling Balances that the British had claimed as forced credit during the Second World War.
- The Indian capitalists' efforts at securing a better position for India and other under-developed countries in the multilateral monetary and trade institutions—such as the International Monetary Fund and the International Trade Organization—that were being contemplated after the Second World War.
- The crucial linkages between the economic, political and ideological evolution of the Indian capitalist class and the nature of the post-colonial state, society and economy.

Overall, this book is a major and distinctive contribution to the complex theoretical question of the relationship between class, nation and state in colonial and post-colonial societies. Based on extensive research and authentication from diverse sources both from India and Britain—including government archives, business chambers' and institutional papers, private papers, newspapers and interviews—this book will interest scholars and students in the fields of history, political science, sociology, business management and economics.

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